



GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT

INITIAL STATEMENT OF REASONS

Subject Matter of Proposed Regulations: California Competes Tax Credit Program

Sections Affected: Title 10, Chapter 13, Article 1, Sections 8000 - 8040

Revenue and Taxation Code Sections 17059.2(h) and 23689(h) specifically authorize GO-Biz to prescribe rules and regulations as necessary to carry out the purposes of the California Competes Tax Credit Program.

A. Background

Governor Edmund G. Brown Jr. established the Governor's Economic Development Initiative (GEDI) by signing Assembly Bill 93 (Cmte. on Budget, Chapter 69, Statutes of 2013) and Senate Bill 90 (Galgiani, Chapter 70, Statutes of 2013) into law. GEDI is comprised of the Manufacturing Equipment Sales and Use Tax Exemption, New Employment Credit, and the California Competes Tax Credit (CCTC). The Governor's Office of Business and Economic Development (GO-Biz) is responsible for implementation of the CCTC. The CCTC is a state-wide program available to both large and small businesses, with 25% of available credit each year specifically reserved for small businesses. Section 1 of AB 93 makes it clear the intent of GEDI is to attract and retain high-value employers while at the same time ensuring accountability for the state's job creation efforts and the effective use of taxpayer dollars is maximized.

In the 2013-14 fiscal year, thirty million dollars of tax credits were available for distribution. In order to implement the program in fiscal year 2013-14, emergency regulations were adopted on February 20, 2014. As part of the regulations, GO-Biz developed an application process to implement the tax credit and make determinations as to which taxpayers will be granted the tax credit based upon a competitive application process. The emergency regulations were due to expire on August 20, 2014; therefore, GO-Biz submitted amended emergency regulations that were adopted on August 18, 2014 to avoid any lapse or delays in the program. These emergency regulations are valid for 90 days and expire on November 18, 2014.

Given that the amended and readopted emergency regulations are only effective for ninety days, GO-Biz is now completing the final permanent regulatory process and thus has submitted this initial statement of reasons which describe the rationale for why the regulations are necessary to carry out the purpose of administering the CCTC program, enumerate the benefits anticipated from the regulatory action, include any technical, theoretical or empirical study (discussed below under the heading "underlying data"), if any, upon which GO-Biz relied, and describe the reasonable alternatives considered by GO-Biz and its decision for rejecting those alternatives.

In order to effectively administer the CCTC program, GO-Biz is required to promulgate regulations because it is not exempt from the rule making process under the Administrative Procedure Act. The CCTC regulations provide a framework for ensuring that only the most competitive applicants receive the tax credit. In awarding the credit, GO-Biz is required, by statute, to consider the following factors:

- (1) The number of jobs created or retained in the state;
- (2) The compensation paid or proposed to be paid to employees, including wages and fringe benefits;
- (3) The amount of investment in the state;
- (4) The extent of unemployment or poverty where the business is located;
- (5) The incentives available to the business in the state;
- (6) The incentives available to the business in other states.
- (7) The duration of the business' proposed project and the duration the business commits to remain in this state;
- (8) The overall economic impact;
- (9) The strategic importance to the state, region, or locality;
- (10) The opportunity for future growth and expansion; and
- (11) The extent to which the anticipated benefit to the state exceeds the projected benefit to the business from the tax credit.

In order to systematically create a method in which to evaluate the eleven factors, GO-Biz decided to implement a two phase evaluation process to determine the competitiveness of each application. The first phase consists of a quantitative evaluation which uses a cost-benefit formula to determine the most competitive applicants with the lowest cost-benefit ratio. This takes into account the amount of tax credit requested by the applicant and the first three factors of the eleven factors, above, specifically: (1) the number of jobs created in the state; (2) the compensation proposed to be paid to employees; and (3) the amount of investment in the state. Given the CCTC program also aims to attract and retain jobs in California, GO-Biz decided that applicants that would initiate the proposed project in another state, or relocate and or terminate all or a portion of its employees in this state absent this credit would be moved directly to the second phase of evaluation, regardless of their cost-benefit ratio. The second phase consists of a qualitative evaluation which includes the remaining factors described above. At the end of the two phase evaluation process, GO-Biz negotiates and executes contracts with the applicants specifying what requirements or milestones must be met in order to earn a tax credit. GO-Biz then presents these contracts to the statutorily created California Competes Tax Credit Committee for approval or rejection at a public meeting.

To effectively implement the two phase evaluation process and the overall CCTC program, GO-Biz initially adopted eight distinct regulatory sections under Chapter 13, Article 1 to provide the framework and process of how to administer the CCTC program. Specifically, GO-Biz created the following sections: (1) the definitions, (2) the tax credit, (3) the announcements of the deadlines and committee meetings, (4) the application process, (5) the agreement, (6) the committee meeting, (7) website posting, and (8) franchise tax board duties. The rationale for each of these sections, its benefits, the alternatives considered, and the reliance on any other third party data or empirical study, if any, are addressed

below, unless explicitly excluded because the regulations are essential self-explanatory on their face. Items 5, 6, and 7 were included in the initial emergency regulations to provide context and clarity, even though they were repetitive of statute. These sections were repealed from the emergency regulations adopted on August 18, 2014, and from these proposed regulations as they are duplicative of statute.

B. Discussion of Sections Affected

(1) Section Affected: Chapter 13, Article 1, Section 8000 – Definitions.

Section 8000 adds thirty-three definitions that are used as a part of the CCTC program. Some of these terms are either unique to this program or have the potential for multiple definitions. Given the potential for multiple definitions, GO-Biz has decided to define terms to give them specific meaning under the regulations. A number of the definitions are self-evident based on the description of the definition (*e.g.*, website); thus, such definitions are not explicitly described below. The only definitions covered below are those that may have multiple meanings or are defined in a particular manner for this program. In some instances, definitions are discussed collectively to improve understanding. Each bulleted item below highlights one or more definitions that are defined in section 8000 and are accompanied by a discussion about the issue being addressed by the definition, the rationale for why such definitions are necessary to carry out the purpose of administering the CCTC program, the benefits anticipated from the regulatory action, including any technical, theoretical or empirical study, if any, upon which GO-Biz relied and the reasonable alternative definitions considered by GO-Biz and its decision for rejecting those alternatives.

- “AGGREGATE EMPLOYEE COMPENSATION”, “SALARY”, “FULL-TIME EMPLOYEE”, AND “ANNUAL FULL-TIME EQUIVALENT”

a. Issue being addressed:

A major priority of the CCTC program is the creation of new full-time jobs. To that end, “full-time employees” are quantified on an “annual full-time equivalent” basis to more accurately account for a “full-time employee” that works a partial year as a result of being hired after the start of the applicant’s tax year. “Aggregate employee compensation” includes the amount of “salary” or straight compensation (not including “benefits” or overtime) that an employer will pay its new “full-time employees” calculated on an “annual full-time equivalent” basis in aggregate over a five year period.

“Full-time employees” are defined as working at least thirty-five hours per week. Full-time employees are calculated on an “annual full-time equivalent” basis which divides the total number of hours worked by an employee during a taxable year by one-thousand seven-hundred and fifty hours or the total weeks worked in a taxable year divided by fifty for salaried employees, including paid leave.

Clear definitions of these program-specific terms are necessary to ensure the accurate and consistent submission of information to GO-Biz by applicants. Absent clear definitions, applicants would be more likely to submit inconsistent information that could impact the entire field of applicants, thus standardized requirements are necessary. Section 8030 (described later in this document) prescribes the application process and criteria for evaluating applications. The first phase of the evaluation process is an automated phase that yields the cost-benefit formula (benefit) to the state by calculating a ratio that divides the amount of tax credit requested by an applicant by the sum of its “aggregate employee compensation” and “aggregate investment.” A misinterpretation of these inputs could result in an artificially inflated or deflated ratio. For example, if an applicant was not clear that “aggregate employee compensation” only includes “salary” for “full-time employees calculated on an “annual full-time equivalent” basis, it could include employees that work less than the requisite amount in its calculations. As a result, its artificially inflated ratio could move the applicant automatically into Phase II, taking the place of another applicant that submitted the requisite information accurately.

b. Anticipated benefits from this regulatory action:

These definitions ensure applicants have a clear understanding of the information that is being requested for purposes of the calculation of the ratio. A second benefit is the consistency of the information being provided. Receiving clear and consistent information from the applicants enables the CCTC staff to evaluate applicants based on the same criteria and make award recommendations that are reflective of the most competitive applicants.

c. Underlying Data:

For the definitions of “aggregate employee compensation”, and “salary”, there was no relevant data or empirical studies relied upon by GO-Biz.

With regard to the definition of “annual full-time equivalent”, GO-Biz decided to use the definition used in the New Employment Credit component of GEDI as defined in Section 17053.73 of the Revenue and Taxation Code.

With regard to the definition of “full-time employees”, GO-Biz did evaluate various definitions of full-time employees. For example, the New Employment Credit uses the definition of a full-time employee in Revenue and Taxation Code 17053.73. In this section, “annual full-time equivalents” are calculated based on two-thousand hours a year or fifty-two (52) weeks for salaried employees. This equates to approximately thirty-eight and a half (38.5) hours worked per week on an average basis.

GO-Biz selected one-thousand seven-hundred and fifty hours or the equivalent of at least thirty-five hours a week for fifty weeks to take into account the potential of an employee taking unpaid time off over the course of the year. GO-Biz did not want to penalize such an applicant, but rather would allow such an applicant to count this employee as a full-time employee.

d. Consideration of Alternatives:

Set forth below are the alternatives which were considered and the reasons each alternative was rejected:

- (i) Use an alternative definition of “annual full-time equivalent” in calculating “aggregate employee compensation” such as the one used for the New Employment Credit. This alternative bases “annual full-time equivalents” on two-thousand hours a year, or fifty-two weeks a year for salaried employees. To calculate an “annual full-time equivalent” in this manner, you would divide the hours worked by the employee in a tax year by two-thousand hours or the weeks worked by fifty-two to come up with the number of “annual full-time equivalent” employees. While this alternative definition of an “annual full-time equivalent” is more consistent with the New Employment Credit, it is a more restrictive measurement and doesn’t reflect the fact that employees may need to, or are allowed to, take unpaid leave during the year. As the goal of this program is to stimulate economic growth and new jobs, it was deemed more beneficial to use a more inclusive definition. No other alternatives to salary were considered.
 - (ii) Use employee headcount instead of “annual full-time equivalent”. This option was rejected as headcount can literally fluctuate on a daily basis as employees retire, resign, are terminated, and are hired. A headcount relies upon a date certain snapshot in time that is not truly reflective of the typical or average number of employees employed by an applicant. This option could enable an applicant to use a deceptively low number for its base year, thus resulting in a misleading figure of new employees hired in subsequent years. Please see a further discussion of this option under “base year” later in this document.
 - (iii) Not clarifying how to calculate “aggregate employee compensation” and the definitions of “salary”, “full-time employee”, and “annual full-time equivalent”. This option was rejected because it provides no guidance, does not resolve ambiguity in the statute, and would result in inconsistent methods of calculating aggregate employee compensation.
 - (iv) Defining salary to be inclusive of benefits. This option was rejected because the range and options of benefits vary greatly from one employer, region, or industry type to another. In addition, many employers provide varying levels of benefit packages to their employees and/or dependents; and, it is more beneficial to quantify the straight wages or salaries of new employees, independent of and in addition to the value of the benefits provided.
- “AGGREGATE INVESTMENT PACKAGE”, “DIRECTLY RELATED”, “INVESTMENT”, “PERSONAL PROPERTY”, “PROJECT FINANCING”, AND “REAL PROPERTY”

a. Issue being addressed:

“Aggregate investment”, “directly related”, “investment”, “personal property”, “project financing”, and “real property”, specify and differentiate between the types of investments, sources of financing, and the specific period of time that said investments may be included.

“Real property” (e.g. a building or land) and “personal property” (e.g., moveable property such as a vehicle or furniture) are defined to clarify what may and may not be included in the application. Similarly, the term “investment” is defined to only include expenses incurred after the close of the application for that specific period. The intent of the credit is to motivate behavior rather than simply reward investments or decisions that have already been made regardless of the credit. Collectively, all of these investments by applicants are captured by the application form to quantify the total amount of their “aggregate investment” over five consecutive tax years. These regulations are consistent with the emergency regulations adopted on August 18, 2014; specify that the “investments” we are asking applicants to identify are prospective and that they should only include “investments” they are planning to make to directly support their project after submitting their application.

b. Anticipated benefits from this regulatory action:

These definitions ensure applicants have a clear and consistent understanding of the information that is being requested for purposes of calculating the ratio, thereby creating a standardized Phase I review process. Absent clear definitions, applicants fail to have systematized information that could impact the entire field of applicants. Section 8030, (described later in this document) prescribes the application process and criteria for evaluating applications in two phases. As previously stated, Phase I of the evaluation process is an automated process that yields the rate of return (benefit) to the state by calculating a ratio that divides the amount of tax credit requested by an applicant by the sum of its “aggregate employee compensation” and “aggregate investment”. A misinterpretation of these inputs could result in an inaccurate comparison of the applicants. So similar to the discussion above regarding “salary”, a non-standardized approach to calculating “real property” and “personal property” would result in a uniform approach to comparing the applicants.

c. Underlying Data:

GO-Biz did not review or analyze any underlying data for the definitions of “aggregate investment package”, “directly related”, “investment”, “personal property”, “project financing”, and “real property”.

d. Consideration of Alternatives:

- (i) GO-Biz considered alternative definitions of property such as real, tangible, and intangible. We determined these definitions were too restrictive and would not capture the types of investments that applicants are making in support of their projects.
- (ii) Not clarifying how to calculate “aggregate investment” inclusive of the definitions of “real property”, “personal property”, “investment”, and “directly related”. This option was rejected because it provides no guidance, does not resolve ambiguity in the statute,

and would result in inconsistent methods of calculating “aggregate investment”.

- “AGREEMENT”

- a. Issue being addressed:

The definition of “agreement” clarifies that it is a contract between the applicant and GO-Biz, and that unlike previous tax credit programs, receiving a tax credit under this program is contingent upon the parties’ mutually agreed upon contractually obligated milestones and the approval of the “agreement” by the statutorily constituted “committee.” The milestones include the number of new employees to be hired, average and minimum salaries for new employees, and the amount of capital investments to be made over five tax years.

- b. Anticipated benefits from this regulatory action:

The definition of “agreement” describes the nature of the legally binding contract between the applicant and GO-Biz. Given that CCTC is a component of GEDI, which repealed and replaced the former Enterprise Zone (EZ) program, potential CCTC applicants may be familiar with the provisions of the former EZ program and may assume provisions of that program are incorporated into CCTC. Therefore, it is necessary to define terms that may have had different meanings under the old EZ program.

- c. Underlying Data:

GO-Biz did not review or analyze any underlying data for the definition of “agreement”.

- d. Consideration of Alternatives:

There are no reasonable alternatives to the definition of “agreement” that would ensure full compliance with the law being implemented.

- “ALLOCATION” AND “ALLOCATION PERIOD”

- a. Issue being addressed:

The CCTC allows applicants to receive tax credits over five tax years with up to an additional six years of carryover. These definitions allow for a clear understanding of the difference between an “allocation” (amount of credit in any given fiscal year) and an “allocation period” (the tax years in which an applicant requests receipt of the credit); and, reiterate that the amount of the credit allocation and allocation periods are subject to approval of the statutorily mandated “committee”.

- b. Anticipated benefits from this regulatory action:

These definitions provide clarity for these program-specific terms.

c. Underlying Data:

GO-Biz did not review or analyze any underlying data for the definitions of “allocation” or “allocation period”.

d. Consideration of Alternatives:

There are no reasonable alternatives to these definitions.

- “APPLICANT”

a. Issue being addressed:

An “applicant” is any individual, corporation, or partnership that is legally authorized to do business in California that applies for a credit under this program. This section provides two vital clarifications. First, any individual or business entity is eligible to apply for the tax credit. Unlike the New Employment Credit and Manufacturing Equipment Sales and Use Tax Exemption, restrictions such as type of company, location, or nature of the business are not applicable to the CCTC program. Second, this section clarifies that the applicant must be registered with the Secretary of State (if required under existing law). This is vital because GO-Biz cannot enter into a contractual obligation with any entity that is not legally authorized to do business in California.

b. Anticipated benefits from this regulatory action:

This definition clarifies the types of taxpayers in California that are eligible to apply for the CCTC program.

c. Underlying Data:

GO-Biz did not review or analyze any underlying data for the definition of “applicant”.

d. Consideration of Alternatives:

- (i) There are no reasonable alternatives to the definition of “applicant” that would ensure full compliance with the law being implemented.
- (ii) To not define who is an eligible CCTC program “applicant”. This option was rejected because it provides no guidance, does not resolve ambiguity in the statute, and would result in ineligible “applicants” applying and/or otherwise eligible “applicants” not applying because of the lack of clarity on the differences in eligibility between the CCTC program and other components of GEDI.

- “APPLICATION PERIOD”

a. Issue being addressed:

Each year, the Department of Finance informs the Joint Legislative Budget Committee of the amount of funding available for the CCTC program in the next fiscal year based on the criteria laid out in Revenue and Taxation Code 17059.2 and 23689. Under Section 8020 of these proposed regulations, the Director has the authority to announce the “application period” each year prior to the start of the next fiscal year with the flexibility to have multiple application periods. For the fiscal year 2013-14, there was only 1 application period and review. However, in subsequent years, there may be a need to have 3 periods or more. Periods in these subsequent years, may be designated quarterly or if there is an immediate business need because a business is actively looking to leave the State or expand in California, the application period may be revised to accommodate this business’ specific situation. The regulations, as drafted, allow the Director to announce on the GO-Biz website the open application periods. This flexibility is crucial because the regulations cannot predict each business’ needs. Thus, consideration of application and review periods must be done on a case-by-case basis each fiscal year.

As per Section 8020(a), the announcement of the application period is not made on a specific date. This is because, as mentioned above, the final annual credit allocation will be determined by the Department of Finance and the amount available will be based upon the combined use of the three incentive programs included in GEDI. Once provided this information, the Director of GO-Biz has the discretion to determine the timing of the “application period”(s) to best meet the needs of California’s businesses and the state. GO-Biz must post the “application period”(s) for the upcoming cycle by no later than June 30th.

The tentative amount available for allocation each year for the CCTC program is as follows:

- 2013-2014 FY: \$30 million
- 2014-2015 FY: \$150 million
- 2015-2016 FY: \$200 million
- 2016-2017 FY: \$200 million
- 2017-2018 FY: \$200 million

b. Anticipated benefits from this regulatory action:

This definition of “application period” makes it clear that the Director of GO-Biz annually determines the period(s) during each fiscal year when applications shall be accepted, reviewed, and awarded. Providing advance notice of the application periods allows potential applicants time to determine in which period they should apply and to gather requisite information for the application. Furthermore, announcing the application period is consistent with the CCTC being an open and transparent program.

Until the Department of Finance makes a determination of the amount of funding available for the CCTC program, GO-Biz will be unable to inform potential applicants of the amount of credits available for award. Applicants may make a determination of whether or when to apply based on the maximum amount of funding available per period. Furthermore, there may be unanticipated business needs that would benefit from a greater amount of funding being made available during a specific period of time.

In addition, by publicly noticing the dates for the application period, applicants can be assured that the CCTC operates openly in a truly competitive and transparent manner. If the application dates were not publicly noticed, applicants would not know when to apply.

c. Underlying Data:

Assembly Bill 93 and Senate Bill 90 allocated a maximum credit amount over the next five (5) fiscal years for the CCTC program. The final annual credit allocation will be determined by the Department of Finance and based upon combined use of the three incentive programs included in the GEDI. The maximum amount available for allocation each year for CCTC is as follows:

- 2013-2014 FY: \$30 million
- 2014-2015 FY: \$150 million
- 2015-2016 FY: \$200 million
- 2016-2017 FY: \$200 million
- 2017-2018 FY: \$200 million

d. Consideration of Alternatives:

A possible alternative would be to remove the authority from the Director of GO-Biz to establish the "application period"(s) and instead fix the dates of the annual "application period"(s). This option was rejected because it provides inadequate flexibility in meeting the business and economic needs of the state.

- "BASE YEAR"

a. Issue being addressed:

"Base year" establishes a baseline or reference / comparison point to compare the applicant's current number of employees and its aggregate and average employee compensation for its new project commitments. The "base year" is the applicant's most recently completed tax year prior to the tax year in which its application is submitted. This definition also lets a company commencing business in or relocating to California know that the number of existing "base year" employees is zero. It also informs these new to California businesses that the last day in any given application period when an application can be submitted shall be considered the date of

submission, regardless of the actual date

b. Anticipated benefits from this regulatory action:

A major component of this program is job creation. In order to calculate job growth, GO-Biz needs to know how many full-time employees calculated on an “annual full-time equivalent” basis the applicant had in its base year in order to evaluate the net increase of jobs created. If an applicant were simply to indicate new jobs or positions being created, there would be no method to determine if the applicant were also reducing some or all of its workforce (absent this base year calculation).

c. Underlying Data:

GO-Biz did not review or analyze any underlying data for the definition of “base year”.

d. Consideration of Alternatives:

One alternative considered was to use a simple employee headcount based upon a specific date certain (*i.e.*, December 31st or the last day of the applicant’s most recently completed tax year). The benefit of this alternative is it is incredibly easy to calculate. An applicant would simply identify the number of employees on its payroll on a specific date. This definition is problematic on multiple fronts. It only provides a snapshot of a specific point in time. Most employers’ levels of employment fluctuate on a regular basis as employees retire, resign, are terminated, or, as new hires are brought on board. This alternative would also provide an applicant with the ability to present misleading information. For example, if it increased staffing in the summer (*i.e.*, seasonal workers), it could use a figure from its lowest staffing period to compare it to the period in which it will be apply for the credit to inflate the numbers. The goal of this program is to create sustainable full-time employment; thus the date specific alternative is not nearly as accurate or useful compared to using the applicant’s “base year” annual full-time equivalent calculation.

• “BENEFITS” AND “FRINGE BENEFITS”

a. Issue being addressed:

“Benefits” mean health, medical, dental, and vision premiums whereas “fringe benefits” include other amenities provided to an employee and his/her spouse/dependents (if applicable). The CCTC program allows for a qualitative assessment of the value of the jobs being created by applicants. To that end, when comparing and evaluating applications, the quality and quantity of benefits and fringe benefits offered to employees and/or dependents is an important factor in differentiating between two otherwise similar and competitive applications.

b. Anticipated benefits from this regulatory action:

Using clear defined terms for “benefits” and “fringe benefits” ensures a uniform reporting of information from the applicants. Further, this information provides a mechanism for evaluating and comparing the quality of the jobs that applicants are proposing to create.

c. Underlying Data:

The Internal Revenue Service (IRS) defines “fringe benefits” as “...a form of pay for the performance of services. For example, you provide an employee with a fringe benefit when you allow the employee to use a business vehicle to commute to and from work.”¹ The IRS also points out that “fringe benefits” are taxable unless specifically excluded by law, whereas some benefits are not taxable.

d. Consideration of Alternatives:

GO-Biz considered restricting the definition to strictly basic benefits such as medical, dental, and vision. Likewise, GO-Biz considered limiting “fringe benefits” to just those that are taxable. These options were rejected as we chose to be very broad because the purpose of this definition is to help us ascertain the quality of the jobs being created. A job with the same salary and same level of investment and job creation may numerically be identical, but one applicant is providing educational reimbursement and another applicant is not.

• “ECONOMIC IMPACT” AND “STRATEGIC IMPORTANCE”

a. Issue being addressed:

“Economic impact” takes into account the dollar impact of new job creation, and equipment and construction investments on the state. “Strategic importance” accounts for the role the applicant’s project will play in transforming the local economy by, among other things, creating jobs that will be available to local residents and takes into account their socioeconomic status and education levels. The poverty level and unemployment rate in the region in which the applicant is proposing to create jobs also is part of the “strategic importance” definition. “Economic impact” and “strategic importance” are two of the factors identified in Revenue and Taxation Code 17059.2 and 23689 that must be evaluated. However, the statutes did not provide definitions for these factors, thus, GO-Biz decided to define such factors and move the evaluation of these factors into the Phase II qualitative assessment.

b. Anticipated benefits from this regulatory action:

Defining “economic impact” allows GO-Biz to use industry standard software applications such as IMPLAN to quantify the economic impact of an applicant’s proposed project. Defining and clarifying the meaning of “strategic importance” contributes to the transparency of the evaluation process. This demonstrates to applicants that GO-Biz will also look at whether the

¹ <http://www.irs.gov/publications/p15b/ar02.html>

number and types of jobs being created will provide employment opportunities that meet the socio-economic needs and demographics of the region where the project will be implemented.

As previously mentioned, the factors of “economic impact” and “strategic impact” must be evaluated as prescribed by statute; but, the statutes do not define these terms. Thus, defining such terms so applicants understand how such factors will be interpreted is a clear anticipatory benefit of such definitions.

c. Underlying Data:

In creating the definitions for “economic impact,” GO-Biz met with economists in the industry to learn about different modeling tools that exist to evaluate job creation. This influenced the creation of the definition for “economic impact” and by creating this definition lends itself to allowing GO-Biz to use the economic impact analysis software, IMPLAN, to quantify the direct, indirect, and induced economic impacts of the aggregate employee compensation and aggregate investments being proposed by applicants in exchange for receiving the tax credit. IMPLAN is a software package that captures the actual dollar amounts of all business transactions taking place in a regional economy as reported each year by businesses and governmental agencies.

d. Consideration of Alternatives:

- (i) GO-Biz initially considered not defining “economic impact” or “strategic importance”. This option was rejected as it did not give applicants a clear understanding of the criteria that would be used as part of the Phase II evaluation.
- (ii) These revised proposed regulations have gone further in expanding on the definition of “economic impact” to include direct, indirect, and induced employment creation.
- (iii) GO-Biz considered alternative definitions to strategic importance that would have limited the CCTC to applicants located in specific high poverty and/or unemployment census tracts. This option was rejected as too restrictive since even geographic areas with relatively low percentages of unemployed residents could still have high numbers of unemployed individuals who could benefit from projects that propose to create jobs that mesh with the demographic and educational levels of these unemployed individuals.

• MATERIAL LITIGATION

a. Issue being addressed:

“Material litigation” encompasses the types of litigation that a business would be required to

report or would be deemed as material and also includes, among other claims, the disclosure of alleged wage and hour violations, permit issues, and tax lien issues. Knowing the number and types of litigation that an applicant is involved in is an indicator the applicant's potential financial health, which in turn is an indicator of a company's ability to create and sustain the jobs and investments it proposes as a part of its application.

b. Anticipated benefits from this regulatory action:

During the first cycle of the CCTC program, GO-Biz received 396 applications requesting over \$500 million in credits despite only having \$30 million in available credits. With only a finite amount of credit authority available, ensuring that the credits are awarded to applicants with a high likelihood of achieving their stated milestones is vital. "Material litigation" is a strong indicator of a company's financial health. If applicants fail to achieve their contractually agreed upon milestones, Revenue and Taxation Code section 18410.2 specifically authorizes the committee to recapture all or a portion of the credit. A company whose existence, or ability to achieve its stated milestones, may be jeopardized because of a current or anticipated litigation must be thoroughly vetted to avoid a situation where the credit is awarded and ultimately recaptured.

c. Underlying Data:

GO-Biz conducted an informal survey of the types of litigation that could have an impact on a company's ability to create jobs and make investments. GO-Biz also received letters from third parties and stakeholders that wanted a wider variety of litigation types (*i.e.*, wage and hour) specifically included in the definition.

d. Consideration of Alternatives:

- (i) GO-Biz considered establishing a minimum dollar amount associated with the potential litigation that would trigger a threshold for reporting to GO-Biz as part of the CCTC application process. This option was rejected as even relatively small lawsuits can turn into larger judgments as additional plaintiffs, fees, and penalties come into play. Further, a specific dollar amount is too relative. An alleged \$1 million dollar lawsuit to a small business may certainly be material, but to a fortune 100 company would be immaterial.
- (ii) Not requiring an applicant to disclose material litigation as defined. This option was rejected because it provides no guidance, does not resolve ambiguity in the statute, and would result in potentially awarding a "credit" to an applicant as part of the competitive evaluation process whose likelihood of achieving its stated milestones is doubtful because of a pending lawsuit that if unsuccessful for the applicant, would render the applicant unable to continue operating its business.

- “PROJECT”

- a. Issue being addressed:

“Project” is defined as the activities that an applicant is proposing to undertake that will result in the job creation and investments identified in its milestones. “Project” is a term used by this program to describe the specific venture or set of activities upon which applicants are basing their proposed growth. This definition allows applicants to focus on and describe the specific activities that will result in the investments and new jobs they are proposing to create while not requiring them to describe all aspects of their entire business. The term “project” is referenced without definition throughout Sections 17059.2 and 23689 of the Revenue and Taxation Code without definition.

- b. Anticipated benefits from this regulatory action:

This narrow focus and definition of “project” is less burdensome, especially for extremely large businesses with multiple programs. That said, the CCTC program still takes a statewide look at each applicant to ensure that the proposed growth as part of the “project” is not offset by reductions in other programs/activities within California.

- c. Underlying Data:

GO-Biz did not review or analyze any underlying data for the definition of “project”.

- d. Consideration of Alternatives:

- (i) There are no reasonable alternatives to this definition.
 - (ii) Not clarifying the definition of “project”. This option was rejected because it provides no guidance, does not resolve ambiguity in the statute, and would result in inconsistent information being submitted by the applicants on the activities they will undertake to achieve their milestones (*e.g.*, facility expansion, relocation, development of a new product line, etc.). Thus, this lack of definition would make it much more difficult to analyze and compare applicant proposals as part of the competitive evaluation process.

- “SMALL BUSINESS”

- a. Issue being addressed:

“Small business” is defined as a business in California that has gross receipts greater than zero and less than two million in its previous taxable year. Sections 17053.73 and 23626 of the Revenue and Taxation Code define a small business as one that had less than \$2,000,000 in gross receipts in the previous taxable year.

b. Anticipated Benefits from this regulatory action:

Having a definition that requires a “small business” to have gross receipts of greater than zero enables true small businesses to fairly compete for a tax credit under this program. A company that has no gross receipts may be a well-capitalized start-up of a parent company; and therefore, it would not necessarily be equitable to have a true small business compete for the credit allocated for small businesses against a well-capitalized start-up of a previously existing company. This type of well-funded entity was not envisioned in the drafting of the statute and does not meet the spirit of the law with regards to a legitimate small business. This definition ensures a level playing field for legitimate small businesses applying for a credit. Further, requiring that a small business have gross receipts of greater than zero is an indicator that it will have income generating a tax liability capable of receiving an offsetting credit during its proposed credit allocation periods.

c. Factual Basis / Rationale:

Sections 17053.73 and 23626 of the Revenue and Taxation Code define a small business as one that has less than \$2,000,000 in gross receipts in the previous taxable year; but, it does not address extremely well capitalized/funded businesses with no gross receipts that qualify under the statute. It should also be noted that these sections specifically identify a small business as one that “has” gross receipts of less than \$2,000,000. The use of the word “has” implicitly requires a small business applicant to actually have gross receipts.

d. Underlying Data:

GO-Biz did not review or analyze any underlying data for the definition of small business, other than the Revenue and Taxation Code sections referenced above.

e. Consideration of Alternatives:

- (i) GO-Biz considered other methods of defining or categorizing a “small business” such as its employee headcount or size. This option was rejected as it would be inconsistent with the statute.
- (ii) Not clarifying that a “small business” must have more than zero dollars in gross receipts. This option was rejected because it does not resolve the issue of well-capitalized small business applicants. Thus, this alternative was rejected.

(2) Section Affected: Chapter 13, Article 1, Section 8010 – Tax Credit.

a. Issue being addressed:

Under the initial emergency regulations for the CCTC program, Section 8010 simply reiterated Revenue and Taxation Code sections 17059.2 and 23689's requirement that no single applicant may apply for or receive more than 20% of the total available "tax credit" available each fiscal year. GO-Biz amended this section in the emergency regulations adopted August 18, 2014 is proposing to keep this amendments in these permanent regulations to establish the minimum credit request at \$20,000 while eliminating the language that is duplicative of the aforementioned code sections. Previously, the duplicative language was included for clarity purposes, but GO-Biz has determined that this is no longer necessary.

b. Anticipated benefits from this regulatory action:

During the 2013-14 funding cycle, GO-Biz received three-hundred ninety-six tax credit applications. Of these three-hundred ninety-six applications, twenty-two) requested less than \$20,000. None of these twenty-two were even remotely competitive in Phase II.

Another reason for establishing a minimum credit amount is to reduce the frequency of having to administer extremely small credits that are unlikely to have any substantial impact on California's economy. From an administrative perspective, the CCTC has a very small staff charged with reviewing applications and monitoring credit recipients' performance in terms of meeting their milestones. Absent this minimum credit amount, the CCTC could find itself reviewing, evaluating, contracting with, and monitoring hundreds of micro-credits that would not individually or collectively have a measurable impact on improving California's economy and whose monitoring costs would exceed any potential benefit to the state.

c. Underlying Data:

Revenue and Taxation Code Sections 17059.2 and 23689.

d. Consideration of Alternatives:

GO-Biz considered a number of alternative minimum credit amounts. \$20,000 was selected as the minimum based on our experience in the 2013-14 fiscal year, which demonstrated that businesses asking for less than \$4,000 a year (\$20,000 over the five year allocation period) were unlikely to have a project that would have a measurable benefit to the economy. Furthermore, based on conversations with many of these applicants, it was determined that those asking for less than \$4,000 a year were in all likelihood going to implement their proposed project regardless of the credit.

GO-Biz also considered a higher minimum amount such as \$50,000 or \$100,000. These options were rejected because 25% of the CCTC is reserved in statute for small businesses. A \$50,000 credit, for example, would provide on average a \$10,000 credit for five years. With small businesses defined as those with less than \$2 million in annual gross receipts, many small

businesses would not have a tax liability great enough to fully utilize the credit.

(3) Section Affected: Chapter 13, Article 1, Section 8020 - Announcement of Application Deadlines and Committee Meetings.

a. Issue being addressed:

The issue being addressed in Section 8020 with regard to application deadline announcements and committee meetings is balancing the need of the public to have clear expectations of when application periods will be and how frequent the awards of the credits will be given and approved (or rejected) by the Committee, but also balancing the need for flexibility in the program to meet various business needs and the varying amounts of credit available. The proposed language in this section regarding announcement of application deadlines and committee meetings establishes the process for informing the public of the application periods, tax credits available during each period, dates of committee meetings, and any credits not awarded during the application period. It also enables GO-Biz's Director to reschedule or amend application periods, deadlines, and committee meetings. Please refer to the discussion above regarding application periods.

b. Anticipated benefits from this regulatory action

This section makes it clear that the Director of GO-Biz designates the period(s) during a fiscal year when applications shall be accepted and when the Committee will meet. Providing advance notice of the application periods and committee meeting dates allow potential applicants sufficient time to determine in which period they should apply, to gather the requisite information for the application, and, if desired, calendar time and make travel arrangements to come to location of the CCTC committee meetings. Further, providing the Director the authority to amend application periods/deadlines and committee meetings allows GO-Biz the flexibility it needs to make adjustments based on the needs of the business community.

c. Factual Basis / Rationale:

Until the Department of Finance makes a determination of the amount of funding available for the CCTC program, GO-Biz will be unable to inform potential applicants of amount of credits for which they will be available to apply. Applicants may make a determination of whether or when to apply based on the maximum amount of funding available per period. Further, there may be unanticipated business needs that would benefit from a greater amount of funding being made available during a specific period of time.

d. Underlying Data:

GO-Biz did not review or analyze any underlying data for enumerating the process for announcing the application periods and committee meetings.

e. Consideration of Alternatives:

- (i) There are no reasonable alternatives to the process laid here for announcing application periods and committee meeting dates that would ensure full compliance with the law being implemented.
- (ii) Remove the authority from the Director of GO-Biz to establish the “application period”(s) and instead fix the dates of the annual “application period”(s). This option was rejected because it provides inadequate flexibility in meeting the business and economic needs of the state.

(4) Section Affected: Chapter 13, Article 1, Section 8030 (a) – (d) - Application Process for Tax Credit Allocation.

a. Issue being addressed:

Some aspects of this section are deemed self-explanatory (*e.g.*, amount of CCTC requested) and are therefore not addressed in this section. The remainder of the application requirements are grouped together for the sake of clarity and to reduce redundant explanations.

Subdivision (a) of section 8030 establishes that all applications shall be submitted online via a password protected website if the Director specifies that an online application shall be used for the application period. The intent of this language is to prepare applicants to submit their application online while providing assurances that their application will be kept on a secure password protected website.

Subdivision (b) of section 8030 clarifies the information (*e.g.*, applicant name, federal/state identification numbers, etc.) applicants will need to provide as part of the previously defined application form. Specifically, subdivision (b)(1-4) requests the applicants’ legal name(s), state of incorporation, and federal/state identification numbers. This information is used to identify the applicant, to differentiate it from other companies that may have similar business names, and to ensure GO-Biz is entering into a binding contract with the legal entity name of the applicant.

Subdivision (b)(6) of section 8030 requires the applicant to identify the taxable year(s) in which it would like to receive the tax credit. GO-Biz needs this information in order to (1) negotiate a contract that ties the credit allocation periods to the proposed milestones, and, (2) inform the Department of Finance in which years the credits will be allocated in order to account for these

credits when conducting annual revenue projections for the budget. This also enables the applicant to request credits in the tax year(s) in which it expects to have a corresponding tax liability it wishes to offset.

Subdivisions (b)(8)-(11) of section 8030 ask the applicants to provide GO-Biz with information about the role a consultant played in drafting the applicant's proposal and the nature of the consultant's compensation. A major goal of the CCTC program is to ensure the credits are used to stimulate new employment and economic growth. This examination of the consultant's role will be evaluated by GO-Biz to determine whether the consultant or third party's rate is reasonable; specifically, GO-Biz will evaluate whether a fee or contingency fee is commensurate with the consultant or third party's services provided to the applicant.

Subdivisions (b)(12), (14)-(15), (17), and (26) of section 8030 are used to identify any and all of the applicant's affiliated entities, their relationships to the applicant, and the nature of this affiliation. Since the CCTC program takes a statewide look at an applicant's baseline and projected growth in employment levels, this information is vital. For example, many large businesses have multiple affiliates and subsidiaries all registered to business in California. If one of these large businesses applied under a single affiliate or subsidiary, there would be no way to know if the proposed growth in employment was being offset by a reduction in employees at an affiliated entity. This could also be an issue in the event that there is a case of "material litigation" against an applicant's affiliate that might not otherwise be reported or come to light absent this requirement, but that could affect the applicant's ability to achieve its credit-contingent milestones.

Subdivisions (b)(18)-(19) of section 8030 clarify that applicants will need to submit North American Industry Classification System (NAICS) information for both the company and the proposed project. NAICS is the standard used by Federal statistical agencies in classifying business establishments for the purpose of collecting, analyzing, and publishing statistical data related to the U.S. business economy."² GO-Biz will use the classification system to determine the types of applicants that are applying for the credit and the types of jobs they are creating. This classification system assists GO-Biz when assessing the strategic importance aspect of the evaluation which looks at, in part, the types of jobs being created and their relative impact on the regional economy and unemployment rates.

Subdivisions (b)(20)-(26) of section 8030 ask the applicant to indicate the years it first was established, when it commenced business in California, and the identity of any of its affiliated entities. These factors are indicators of a company's financial health, commitment to California, and ability to achieve its employment and investment milestones. In addition, applicants are asked to identify the number of its total employees, including but not limited to, those already in California.

² <https://www.census.gov/eos/www/naics/>

Subdivisions (b)(27), (30), and (42) of section 8030 ask the applicant to describe its project, timeline, and the applicant's risk for relocating to another state. The CCTC program allows applicants to identify one of four proposed project types on the application form: (1) growth / expansion, (2) relocation within California, (3) relocation to California from another state, or (4) retention. Projects that identify themselves as a retention project must submit a letter from their CEO or equivalent affirming that they are at-risk for leaving the state. An applicant that identifies that it is applying under the retention category automatically moves into Phase II (described later in this section). The applicant's proposed timeline and project description is also factored into this aspect of the evaluation in Phase II. The timeline and project description become the foundation for the contractual milestones that the applicant will sign as part of the agreement.

The information requested in subdivisions (b) (31)-(34) of section 8030 collectively are reviewed to address project readiness. Specifically, these items ask the applicant to identify the status of required permits (if applicable), project financing, working capital, and other information the applicant deems material regarding long-term project sustainability and viability.

Subdivisions (b)(35)-(40) of section 8030 reiterate, for consistency, the requirement in Revenue and Taxation Code 17059.2 and 23689 for applicants to provide information on the number of full-time jobs being created, the average and minimum compensation for these new positions, benefits and fringe benefits offered, and their dates of hire. This information is necessary to accurately calculate the aggregate employee compensation that is based on the annual full-time equivalents as discussed in the definitions section and described throughout this document. These subdivisions further require the applicant to identify the types of jobs being created as this directly relates to the statutorily required strategic importance evaluation criteria.

Subdivisions (b)(43)-(45) of section 8030 ask applicants to identify if they plan to apply for, or expect to, receive credits from the other components of the GEDI and any other state/local incentive programs. This information is necessary to maximize the effect of this program by ensuring credits are awarded to businesses with the highest need. A secondary benefit of requesting this information is it generates the ability for GO-Biz to have one of its business specialists (if the applicant so consents) to reach out to unsuccessful CCTC applicants to make sure they are informed about other available credits and incentives of which they might not otherwise be aware.

b. Anticipated Benefits from this regulatory action:

The information applicants are required to submit as part of the application ensures that GO-Biz receives clear and consistent information from each applicant. This allows GO-Biz staff to conduct fair, transparent, qualitative, and quantitative evaluations that lead to credit recommendations for the most competitive applicants. This section also provides mechanisms

to ensure that credits are only awarded to the applicants that meet the statutory evaluation criteria and that have the highest need and likelihood of project success.

c. Factual Basis / Rationale:

The processes described above are based on the requirements set forth in Revenue and Taxation Code 17059.2 and 23689.

d. Underlying Data:

Having recently completed the first round (FY 2013-14) of the CCTC program, GO-Biz has confirmed that absent the above referenced requirements, it would be difficult to evaluate and compare applications consistent with statutory requirements. We operated the first round under emergency regulations (OAL File No. 2014-0210-01-E) upon which these proposed regulations are based. A post-evaluation review of the process resulted in relatively minor proposed changes to the regulations and a revamping of the online application to make it both easier and more intuitive for applicants to complete.

e. Consideration of Alternatives:

- (i) GO-Biz spent an extensive amount of time developing these proposed regulations and held a number of statewide workshops to solicit stakeholder input prior as part of the initial emergency regulatory process. Neither GO-Biz nor the CCTC stakeholders identified any reasonable alternatives that would be either more effective in carrying out the statutory requirements of the CCTC program or would be as effective or less burdensome to affected applicants and equally effective in implementing this program in a fair and transparent manner.
- (ii) Not clarifying these requirements. If GO-Biz did not provide guidance as to what information should be submitted, it would result in GO-Biz either not receiving sufficient information and/or receiving information in an inconsistent manner that would render it virtually impossible to fairly and consistently evaluate applications through this competitive process. This option was rejected because it provides inadequate guidance to applicants.

(5) Section Affected: Chapter 13, Article 1, Section 8030 (e) – (o) - Application Process for Tax Credit Allocation.

a. Issue being addressed:

Subdivisions (e) – (o) of section 8030 specify that the application shall be conducted in two phases. The first phase is automated in which the applicants are ranked based on the ratio

created by dividing their credit requests by the sum of their aggregate employee compensation and aggregate investment packages. The second phase identifies the eight (8) additional factors that will be used to evaluate the applicants who were moved into Phase II via the numeric Phase I process.

Applicants must demonstrate the nature and quality of the jobs being created and capital and personal investments being made to enable GO-Biz to accurately assess the return on the state's investment. This section clearly identifies the information that shall be submitted via the CCTC online application website and the criteria for evaluating proposals.

Subdivision (e) of section 8030 informs applicants that information they submit and identify as a trade secret, confidential, or proprietary shall not be released by GO-Biz unless required to do so by law or a court order. This subdivision further clarifies the protections of and process for releasing trade secret and/or confidential information under the Public Records Act.

Subdivision (f) of section 8030 indicates that GO-Biz shall implement a two-phase review process for review of CCTC applications.

Subdivision (g)(1) of section 8030 clarifies that Phase I is an automated process that has been discussed throughout this document. The amount of information requested from applicants in Phase I is fairly minimal – it is simply the three quantitative factors that have been previously defined: aggregate employee compensation, aggregate investment, and amount of tax credit requested. GO-Biz has created worksheets to assist applicants in accurately and consistently calculating this information. We are in the process of converting these worksheets into an on-line form that will automatically populate the application with the required information after an applicant provides the requisite data.

Implementing a two-phase application process is absolutely vital in reducing the financial and time impact on business applicants, especially small businesses. In the 2013-14 application period, GO-Biz received 396 applications requesting over \$500 million in credits, despite only having \$30 million available. This section clarifies that the top 200% in credit requests as ranked by the previously mentioned ratio will be moved into Phase II. For example, in the first cycle of 2014-15, GO-Biz's Director has allocated \$45 million of the \$150 million available for the entire fiscal year. Therefore, GO-Biz will move into Phase II the top 200% of applicants, based on their ratio. In other words, \$90 million (200% of \$45 million) will be made available. In addition to the top 200%, all applicants that certify that the project would take place in another state, or some or all of their employees will be terminated or relocated out of state absent award of this credit, will automatically be moved into Phase II. A major priority of GEDI was to provide incentives for businesses in California to not relocate out of state. Oftentimes, the decision to move all or part of a workforce out of state can happen quickly. To that end, automatically moving retention projects into Phase II enables GO-Biz to enter into discussions and request information from these businesses to determine the likelihood of their relocating jobs and the extent of credit necessary (if any) to keep these jobs in California.

Subdivision (g)(2) of section 8030 repeats for context the requirements for evaluating applications in Phase II as laid out in the allocation requirements in Revenue and Taxation Code 17059.2 and 23689. It also directs applicants to include in their applications benefits (as described in the definitions section) in addition to wages and fringe benefits for the new employees they are proposing to hire.

Subdivision (g)(2)(H) specifies an applicant's fee arrangement with any third party providing services relating to the credit will be considered as part of the review process. This subdivision also instructs applicants that a consulting contingency fee arrangement must result in a fee that is less than or equal to the product of the number of hours of service provided to the applicant and a reasonable hourly rate for such services. This language is consistent with legislative intent. Specifically, subdivision (f) of Section 1 of AB 93 (off code language, un-codified law) clearly states that the Legislative intent and purpose of the California Competes Tax Credit is to attract and retain high-value employers in this state while ensuring the program is a model of transparency and accountability for the state's job creation efforts and the effective use of taxpayer dollars is maximized. Allowing finite tax credits to be redirected to excessively high consultant fees is counter to the intent of this program's authorizing statutes. Data from the first tax credit application period indicates approximately 120 businesses used the services of a consultant to assist with the California Competes Tax Credit Program. Most of the fees related to those services were \$10,000 or less (80 applications); however, 9 applications indicated consulting fees of \$100,000 or more. The most exorbitant fee arrangements identified are as follows:

- \$900,000 for a tax credit request of \$6,000,000
- \$900,000 for a tax credit request of \$4,500,000
- \$720,000 for a tax credit request of \$6,000,000
- \$540,000 for a tax credit request of \$3,000,000
- \$480,000 for a tax credit request of \$6,000,000
- \$295,000 for a tax credit request of \$6,000,000
- \$187,500 for a tax credit request of \$1,250,000

Subdivision (h) of section 8030 asks the applicants to identify their readiness and site control. GO-Biz needs to balance the need to evaluate whether an applicant is sufficiently capitalized to move forward with its proposed project as well as whether it has a number of contingencies like (*i.e.*, lease or ownership of the property) and whether an applicant's project will move forward regardless of an award of the credit. GO-Biz uses the information requested in subdivision (h) of section 8030 to motivate behavior as well as to reward indicators that applicants are investing in California and intending to continually grow in the state.

Subdivision (i) of section 8030 provides GO-Biz the authority to request any documentation not otherwise identified in the regulations that is necessary to substantiate the claims being made by the applicant. Absent this regulatory authority, GO-Biz would have limited means to verify

information; and, an applicant could refuse to provide specific forms or documents by challenging GO-Biz's authority to request them.

Subdivision (j) of section 8030 ensures that applicants have the ability to withdraw or amend an application up to and until the submission deadline. It also provides a mechanism for applicants to withdraw an application through the application website any time prior to the committee meeting. This subdivision is necessary as applicants adjust to the reality of online applications. For many businesses that have applied for credits, grants in the past, an application was not considered as "submitted" until a hard copy was mailed or delivered to the evaluating agency or department. In this era of online applications, businesses develop and submit their applications using GO-Biz's application website in various versions and drafts. Providing this clarification assures applicants that they have the ability to amend/withdraw even though the data is being stored on a government-run website.

Subdivision (k) of section 8030 highlights one of the unique aspects of the CCTC program -- its statutory authority (Revenue & Taxation Code 17059.2 and 23689) to negotiate with applicants. Unlike other programs that had specific formulas that dictated their specific funding eligibility, the CCTC program is a negotiated credit that takes into account the eleven criteria that are laid out in statute and reiterated in this section. This subsection enables GO-Biz, at its discretion, to negotiate via phone, video conference, in-person meetings, or other means with applicants the terms and conditions of the credit. This subdivision simply specifies the means and scope of negotiation between GO-Biz and applicants.

Subdivisions (l) - (o) of section 8030 clarify some administrative actions related to the program. GO-Biz may reject any application whose quantifiable information (e.g., number of employees) is reduced between Phase I and Phase II. It would be unfair for an applicant to qualify for Phase II based on a certain set of numbers and to then compete in Phase II based on reduced numbers that may have resulted in it not having even been moved into Phase II in the first place, thus taking a spot away from an otherwise more competitive applicant. Likewise, an applicant whose application is incomplete shall be deemed pending and not considered for an allocation unless the information requested is provided in a timely manner.

To reduce the burden on businesses, subdivision (n) allows an application to rollover from one application period to the next within the same fiscal year by indicating so online of its intent; however, as stated in subsection (o) applications will not rollover from one fiscal year to the next. This provides much-needed time saving flexibility for businesses while at the same time recognizing that it would not make sense to roll applications over from one fiscal year to the next, as their base year would change and they would be required to change the information in their application regardless.

b. Factual Basis / Rationale:

This section specifies the criteria for evaluating and negotiating credits and reiterates authority

granted in statute to ensure a fair and impartial evaluation process for all applicants.

c. Consideration of Alternatives:

- (i) No reasonable alternatives would be more effective in making the application process requirements and review process clear and transparent to applicants.
- (ii) Failure to identify through regulatory action the specific information applications must submit during the application process could result in confusion for applicants and therefore was rejected as an alternative.
- (iii) GO-Biz considered language for subdivision (g)(2)(H) that would have specified a maximum percentage for contingency fee arrangements. This option was rejected due to the continued potential for windfall arrangements that result in excessively high fees that are contrary to the purposes of the program. For example, a maximum contingency fee percentage of 4% would result in a fee of \$4,000 for a \$100,000 tax credit, and a fee of \$1.2 million for a tax credit request of \$30 million.

(6) Section Affected: Chapter 13, Article 1, Sections 8040 (Agreement), 8050 (Committee Meeting), and 8060 (Website Posting).

Sections 8040, 8050, and 8060 are duplicative of Sections 17059.2, 18410.2, and 23689 of the Revenue and Taxation Code. Originally, these sections were included in the emergency regulations adopted on February 20, 2014 to provide context. Having recently completed the first round (FY 2013-14) CCTC award cycle, GO-Biz determined that this information is not required for clarity and repetitive of statute. Thus, there is no benefit to repeating this information in the emergency regulations that were adopted August 18, 2014 or in these proposed permanent regulations.

(7) Section Affected: Chapter 13, Article 1, Section 8040 (renumbered from Section 8070 in the emergency regulations adopted February 20, 2014) - Notices to and Duties of the Franchise Tax Board.

a. Issue being addressed:

The proposed language in Section 8040 summarizes the responsibilities of the Franchise Tax Board (FTB) including (1) the statutory requirements of audits for both large and small business credit recipients (2) the determination of a material breach of contract by a recipient, and (3) the exchange of data between FTB and GO-Biz.

b. Anticipated benefits from this regulatory action:

Section 8040 reiterates the roles and responsibilities of the FTB to provide context with the

other sections of this proposed regulation. It also provides notice to applicants that they can be audited by the state to ascertain whether they have achieved their milestones and/or whether a credit should be denied, postponed, or withdrawn.

c. Factual Basis / Rationale / Underlying Data

Revenue and Taxation Code 17509.2 and 23689 require the FTB to audit businesses other than small businesses receiving a credit and authorize it to audit small businesses at its discretion. Section 8040 lays out the process for FTB to notify GO-Biz of a material breach of contract and reiterates GO-Biz's responsibility to notify FTB if the Committee authorizes a recapturing of a credit from a recipient.

d. Consideration of Alternatives:

There are no reasonable alternatives.

C. Anticipated Overarching Benefits of the Entire Proposed Regulatory Package:

This regulatory package ensures that the competitive process is open and transparent, while making it clear to business applicants the information they will need to gather and submit as part of the application and evaluation processes.

Through the creation of this new program, and these proposed regulations, GO-Biz hopes to support and provide benefit to California's economy by stimulating the growth and expansion of businesses located in or relocating to/within California. The proposed CCTC regulations provide the following economic benefits: (1) supports high wage job creation³, (2) contributes to investments made in California, and (3) offers flexibility in the evaluation process to adjust to changes in the business climate. The proposed regulations improve the business climate by reducing the tax burden of doing business, allowing companies to invest in innovation, research and development, and overall boosting the state's competitive advantage.

D. Reasonable alternatives to the regulation and GO-Biz's reasons for rejecting those alternatives

A possible unreasonable alternative would require GO-Biz to develop a software application tool that allows for a comprehensive review of all applicants based upon a weighted scoring system from all data inputs submitted by individual applicants. Weights would be assigned to all quantitative data inputs in the first phase of evaluation. Geographic Information Systems (GIS) mapping would be used to grade projects based on their location and regional unemployment level. Applicants with the highest scores would then move into the second phase of evaluation for further qualitative and quantitative assessment. Currently, in the first phase of evaluation, a cost-benefit formula is used to determine which applicants reach the second phase. This

³ In the first phase of evaluation CCTC considers employee compensation and investments to determine the top 200% of applicants that advance.

formula does not use all data inputs provided by the applicants, but only weighs the amount of tax credit requested to an applicant's proposed investments and employee compensation for new jobs.

This alternative would allow GO-Biz to receive all relevant information upfront and decrease the length of the evaluation process. Additionally, the scoring system would increase transparency given a strict points system of weighted scoring system.

This alternative is resource intensive and would take a significant amount of time to implement. The CCTC program has limited resources and timelines in which it can allocate tax credit awards each fiscal year, making this alternative cost and time prohibitive.

Another possible alternative is to evaluate all quantitative and qualitative factors in the first phase of application evaluation. Under these proposed regulations, Phase I of the evaluation is based on a cost-benefit analysis formula that weighs the amount of tax credit requested to an applicant's proposed investments and employee compensation for new jobs. The top 200% of applicants move forward to the second phase of evaluation. In the second phase, qualitative factors, such as poverty and unemployment levels in the business location, strategic importance to the state, region, or locality, and opportunity for future growth and expansion, are considered.

Similar to the first alternative, this alternative would allow GO-Biz to receive and evaluate all relevant information upfront. This would likely improve the overall assessment of each applicant and could result in a more efficient allocation of tax credits.

This alternative would require additional staff, beyond what was allocated for in the Governor's 2014 budget. It would also require additional staff time to review applications that, in the majority of cases, would not end up being considered for an award. Thus, this alternative would be burdensome on applicants. By allowing for a two-phase approach, only the most competitive applicants from Phase I must provide the additional information requested in Phase II.

E. Reasonable Alternatives to the Proposed Regulatory Action that would Lessen any Adverse Impacts on Small Businesses

GO-Biz has not identified any alternatives that would lessen any adverse impact on small businesses. To the contrary, a significant portion of these proposed regulations, as noted, provide clarify and reduce the amount of time necessary for applicants to submit the requisite information.

F. Evidence Supporting Finding of no Significant Statewide Adverse Economic Impact Directly Affecting Business

GO-Biz has determined that there is no evidence of any adverse economic impacts to businesses as a result of these regulations. To the contrary this program and these regulations provide a

mechanism to reduce the tax liability of companies committing to increased investments in human and material capital in California.

To calculate the economic benefits of this program, GO-Biz used IMPLAN to estimate the economic impact of direct, indirect and induced employment/jobs created by future applicants. Based on IMPLAN modeling, CCTC awardee employment commitments from 2015-2018, will support an aggregate total of approximately 160,702 direct, 80,044 indirect, and 104,967 induced jobs in California. The total positive employment impact is 353,713 jobs.

GO-Biz used IMPLAN to estimate the economic impact of equipment and construction investments by future applicants. Based on IMPLAN modeling, CCTC awardee investment commitments from 2015-2018, will support an aggregate total of approximately \$2.25 billion direct, \$1.16 billion indirect, and \$1.1 billion induced economic output in California. The total positive investment output is roughly \$4.5 billion.

GO-Biz used IMPLAN to estimate the economic impact of labor income based on the expected employment, equipment and construction investment commitments of future applicants. Based on IMPLAN modeling, CCTC awardee employment and investment commitments from 2015-2018, will support an aggregate total of approximately \$11.76 billion direct, \$6.3 billion indirect, and \$5.7 billion induced personal income in California.⁴ The total positive investment impact is roughly \$23.8 billion.

GO-Biz used IMPLAN to estimate the total change in output based on expected employment, equipment and construction investment commitments of future applicants. Based on IMPLAN modeling, CCTC awardee employment and investment commitments from 2015-2018 will support approximately \$5.68 billion direct, \$2.78 billion indirect, and \$2.58 billion induced output impacts in California. The total output impact is roughly \$11 billion.

G. Results of the Standardized Regulatory Impact Assessment (SRIA)

The CCTC Regulations will help improve California's economy. The projections for job impacts and personal income are substantial. The program supports approximately 352,000 jobs and \$23.7 billion in employee compensation through 2018. Additionally, the significant increases in investment output, roughly \$4.5 billion, will have a positive impact on the economy. The total output from the program is estimated to be roughly \$9.7 billion. All of the discussed economic impacts produce a positive outcome on the California economy. This outcome supports the intention of GEDI to help California businesses grow and expand.

For more detail, please see **Attachment A**, the SRIA for the CCTC program.

⁴ Personal income as referenced in this section denotes total compensation for an employee (i.e. aggregated pay and benefits).

Standardized Regulatory Impact Assessment (SRIA) California Competes Tax Credit Program Regulations

A. Summary

1. Statement of Need of the Proposed Regulation

Governor Edmund G. Brown Jr. established the Governor's Economic Development Initiative (GEDI) by signing Assembly Bill 93 (Cmte. on Budget, Chapter 69, Statutes of 2013) and Senate Bill 90 (Galgiani, Chapter 7, Statutes of 2013) into law. GEDI is comprised of the manufacturing equipment sales & use tax exemption, new employment credit, and the California Competes tax credit. The Governor's Office of Business and Economic Development (GO-Biz) is responsible for implementation of the California Competes Tax Credit (CCTC). The CCTC is a state-wide program available to both large and small businesses, with 25% of available credit each year specifically reserved for small businesses. In addition, priority review is given to companies at risk of relocation out of state (retention candidates).

In the 2013-14 fiscal year, thirty million dollars of tax credits were available for distribution. In order to implement the program in fiscal year 2013-14, emergency regulations were implemented on February 20, 2014. Legislation requires GO-Biz to develop an application process to administer the tax credit and make determinations as to which taxpayer will be granted the tax credit based upon a competitive foundation. As required by statute, the process must be open and transparent and candidates must be provided sufficient time to allow for the negotiations between GO-Biz and the applicant. The emergency regulations are due to expire on August 20, 2014. GO-Biz is now completing the final permanent regulatory process.

GO-Biz is required to draft regulations to effectively administer the CCTC. The CCTC regulations provide a framework for ensuring that only the most competitive applicants receive the tax credit. In awarding the credit, GO-Biz is required by statute to consider the following factors:

- (1) The number of jobs created or retained in the state;
- (2) The compensation paid or proposed to be paid to employees, including wages and fringe benefits;
- (3) The amount of investment in the state;
- (4) The extent of unemployment or poverty where the business is located;
- (5) The incentives available to the business in the state;
- (6) The incentives available to the business in other states.

- (7) The duration of the business' proposed project and the duration the business commits to remain in this state;
- (8) The overall economic impact;
- (9) The strategic importance to the state, region, or locality;
- (10) The opportunity for future growth and expansion; and
- (11) The extent to which the anticipated benefit to the state exceeds the projected benefit to the business from the tax credit.

GO-Biz developed a two phase evaluation process to determine the competitiveness of each application. The first phase consists of a quantitative evaluation which uses a cost-benefit formula to determine the most competitive applicants with the lowest cost-benefit ratio.¹ Retention candidates are moved directly to the second phase of evaluation, regardless of cost-benefit ratio. The second phase consists of a qualitative evaluation which includes consideration of many factors including those described above. At the end of the two phase evaluation, GO-Biz engages in negotiation with the applicant and successful negotiations are then recommended to the California Competes Tax Credit Committee for approval of the tax credit agreements.

As part of the permanent regulation drafting process, GO-Biz is considering the following changes to the existing emergency regulations:

- Eliminating the investment one-year look back: the emergency regulations allowed for a one-year look back on applicant investments due a lack of other available tax incentives for business looking to invest between the dissolution of the Enterprise Zone program and implementation of all three GEDI programs. Now that the entire GEDI is available to businesses looking to invest in the state, this proposed change would seek to incentivize future behavior rather than reward companies for past investment.
- Requiring small business gross receipts to be greater than zero: the intention of the CCTC legislation was to allocate a significant amount of tax credits (25% minimum) to small businesses. Currently the CCTC program uses a ceiling of gross receipts less than \$2 million to define a small business. The proposed change would establish a floor of gross receipts greater than zero dollars to ensure that only small businesses within the intention of the legislation receive credits under the 25% small business allocation.

2. Major Regulation Determination

Assembly Bill 93 and Senate Bill 90 allocated a maximum credit amount over the next five fiscal years for the CCTC program. The final annual credit allocation will be determined by the Department of Finance and based upon combined use of the three incentive programs included in the

¹ Cost-Benefit Ratio Formula for Cal Competes: tax credit requested / employee compensation + investments.

GEDI. The maximum amount available for allocation each year for CCTC is as follows:

- 2013-2014 FY: \$30 million
- 2014-2015 FY: \$150 million
- 2015-2016 FY: \$200 million
- 2016-2017 FY: \$200 million
- 2017-2018 FY: \$200 million

The proposed regulation will likely exceed \$50 million in economic impacts during each fiscal year from 2013-2018.

3. Economic Baseline

Currently, only emergency regulations exist for the CCTC program. If the permanent regulatory process is not completed, there will be no means in which to operate the program. Therefore, the economic baseline represents the remaining components of the GEDI, the manufacturing equipment sales & use tax exemption and new employment credit. Both of these components have specific eligibility qualifications that are not inclusive to all California businesses. The manufacturing equipment sales & use tax exemption only applies to specific manufacturing equipment, such as food processing equipment, manufacturing research and development equipment, biotech equipment, and necessary tenant improvements.² The new employment credit only applies to businesses located in economic development areas that hire individuals with barriers to employment, such as persons unemployed for six months, veterans within one year of separation from active military duty, earned income tax credit recipients, ex-offenders, and recipients of CalWorks or general assistance.³ Without the CCTC, businesses that are not located within economic development areas or purchasing manufacturing equipment would have few, if any, other statewide incentive programs available to assist with growth or retention.

4. Public Outreach and Input

GO-Biz staff conducted a series of statewide workshops and meetings to solicit comments from affected stakeholders regarding the development of the CCTC program. These workshops received participation from local leaders, businesses and economic development practitioners. A summary of the stakeholder outreach is as follows:

Draft Emergency Regulation Workshops

- December 5, 2013, Sacramento, CA
- December 9, 2013, Fresno, CA

² http://www.boe.ca.gov/sutax/manufacturing_exemptions.htm

³ https://www.ftb.ca.gov/online/New_Employment_Credit_Reservation/index.shtml

- December 11, 2013, Hayward, CA
- December 17, 2013, San Diego
- December 19, 2013, Glendale
- December 20, 2013, Online Webinar

B. Benefits

The proposed CCTC regulations provides the following economic benefits: (1) supports high wage job creation⁴, (2) contributes to investments made in California, and (3) offers flexibility in the evaluation process to adjust for changes to the business climate.

1. Individuals

The proposed regulations will not directly affect individual consumers. However, to the extent that new jobs are created or investments are made, individuals hired by businesses as a result of the credit may benefit from additional labor income.

2. Businesses

The proposed regulations have the potential to impact all industries in California with limited exception (see Appendix 1 & 2). The proposed regulations improve the business climate by reducing the tax burden of doing business, allowing companies to invest in innovation, and boosting the states competitive advantage. The proposed regulations also support the small business community, as 25% of the funds are required to be allocated to small businesses. According to the US Small Business Association, small businesses are the main driver of the economy, and in California account for 52% of all employment and 99.2% of state employers.⁵ In addition, the regulations assist businesses that are at risk of leaving California. Retention applicants are prioritized and automatically advanced to the second phase of credit award evaluation.

C. Costs and Cost Savings

The cost of CCTC regulations is the tax revenue forgone, which could have been allocated to other government programs or given as a tax credit to individuals. Tax credit awards from the CCTC program are attributable to a reduction in potential tax revenue for the state. In theory the cost of the program is the lost opportunity of collecting those tax funds and spending them on government programs and services. Thus, the cost to the state is the revenue forgone by not collecting taxes from CCTC awardees. However, it should be noted that without this tax credit, much and in some cases all, of the hiring and investment by individual awardees would not occur and the state would lose out on potential revenue above and beyond the tax credit award amount.

⁴ In the first phase of evaluation CCTC considers employee compensation and investments to determine the top 200% of applicants that advance.

⁵ [http://www.sba.gov/sites/default/files/files/California13\(1\).pdf](http://www.sba.gov/sites/default/files/files/California13(1).pdf)

There is also a cost to implement the CCTC program each fiscal year. GO-Biz estimates the first year of the program will cost \$965,000, and future years will cost \$935,000. GO-Biz did not include the program's implementation costs in the economic impact analysis.

1. Individuals

While there is not a direct cost to consumers, if the tax revenue used to fund the CCTC was used for other government programs or services, the tax burden for consumers may have been reduced accordingly. Under this rationale, the tax credit has a cost to consumer spending for the amount of the allocated credit each year. This factor is accounted for in the model by applying the credit amount for each year as a negative change in consumer spending.⁶

2. Businesses

Businesses awarded a tax credit are able to save the money not paid in taxes and use those funds to finance new jobs and investments. Although this tax credit program does not incur any direct costs to businesses, in some cases applicants hired consultants, attorneys, and other third parties to complete their applications/credit negotiations. Approximately, 30% of the applicants in the fiscal year 2013-14 utilized these types of third-party services.

D. Macroeconomic Impacts

1. Economic Analysis Methodology

GO-Biz used IMPLAN economic modeling software to estimate the impacts of the CCTC on the state's economy. IMPLAN includes data collected by the U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, and U.S. Census Bureau's Annual Survey of Manufactures. Using deflators and activity levels, IMPLAN determines a future project's value in today's dollars. IMPLAN uses its own unique sector codes to define and identify industries within a regional economy based on a consolidation of North American Industry Classification System (NAICS) code classifications. The 396 applicants from the first round of CCTC tax credit applications represented 256 different NAICS codes.

IMPLAN was selected because it satisfies the regulatory criteria found in Title 1, Division 3, Chapter 1, in section 2003(a) of the California Code of Regulation: (1) provides estimates of the total economic effects due to regulatory policies over a multi-year time period; (2) generates California economic variable estimates such as personal income, employment by economic sector, exports and imports, and gross state product, based on inter-industry relationships that are equivalent in structure to the Regional Industry Modeling System published by the Bureau of Economic Analysis; and (3) produces quantitative estimates of economic variables that address or facilitate the quantitative or qualitative estimation of total impact to the state.

⁶ Refer to Appendix V. for list of personal consumption industries used to account for impacts on individuals.

IMPLAN provides a number of results which GO-Biz used to interpret the economic impact of the CCTC on the state economy. These results include direct, indirect, and induced impacts for all employment and investment inputs in terms of the following categories: job creation, labor income, and total output.⁷ The interpretation of these results both individually and in aggregate are reflected within subsequent sections of this report.

2. Inputs and Assumptions

GO-Biz used two assumptions determined in coordination with the Department of Finance to forecast the program's impact on the state economy from 2015 to 2018. First, GO-Biz assumed that for every \$15,000 available in tax credits one direct new job will be created as a result of CCTC. This amount is consistent with the average credit per employee of other states programs. For fiscal year 2014-2015, GO-Biz assumed 10,000 direct jobs will be created. For fiscal years 2015-2016; 2016-2017; 2017-2018, GO-Biz assumed 13,333 direct jobs will be created. Second, GO-Biz assumed direct investments resulting from the CCTC would be three times the total tax credit allocation each fiscal year. For fiscal year 2014-2015, GO-Biz assumed \$450 million in direct investments and for fiscal years 2015-2016; 2016-2017; 2017-2018, GO-Biz assumed \$600 million in direct investments.

To assess future indirect and induced employment impacts, GO-Biz created a list of industries⁸ expected to apply in future rounds, which are proportionately weighted to their respective output within the state. Additionally, to assess future indirect and induced investment impacts, GO-Biz created a list of expected equipment and construction industries,⁹ proportionately weighted to its respective output within the state. Using the assumptions from above, data from these lists were extrapolated to forecast future economic impacts in IMPLAN.

This analysis further assumed that program performance remained proportionately consistent with the increase in the tax credits available per year. However, GO-Biz recognizes that future outputs may be inconsistent. In the first round of the program, employment ranged from 5 to 1550, with the average being 203. Similarly, there is a large span in investments, ranging from 0 to roughly \$526 million, with the average being approximately \$74.9 million.

3. Impact Assessment Results

i. Competitiveness

The CCTC boosts competitiveness by reducing the cost of doing business in the state. For fiscal year 2013-14, \$28,904,663 in tax credits were distributed to 29 businesses. Of

⁷ See Appendix I for list of key terms.

⁸ See Appendix II. The model will not assess impact in the following industries: government, education, film and movie, civic organizations, hotels and motels, casinos, gambling, entertainment and sport franchises.

⁹ See Appendix III. and IV. The model will not assess impact in the following industries: government, education, film and movie, civic organization, sport franchise and some retail and service industries.

those businesses, 25% were located in an area where the level of poverty and unemployment was greater than the statewide average.¹⁰ The program also gives the state a tool to combat intrastate competition by retaining businesses that are at risk of relocation because these applicants are prioritized and automatically advanced to the second phase of credit award evaluation. In the fiscal year 2013-14, 13.8% (4 out of 29 awardees) of the credits were distributed to applicants at-risk of leaving the state.

ii. California Business Impacts

California businesses have a significant role in the nation's economy. California added almost 320,000 new jobs in 2013. In addition, California is one of the top 10 states in the areas of high-wage services, fastest growing companies, initial public offerings, innovation capacity and patents. California is home to 53 of the U.S. Fortune 500 companies and maintains 3.4 million small businesses.¹¹ With the recent growth in job creation and industry sectors, California upholds an internationally competitive gross domestic product, at \$2.2 trillion.¹²

Despite these accolades, California has a higher unemployment rate, cost of living, tax rate and stricter regulatory environment compared to the rest of the nation. According to the Bureau of Labor Statistics California's unemployment rate is the 47th highest in the nation at 7.6%.¹³ CNBC recently put out a study that ranks California 47th in the nation for cost of living.¹⁴ Not only do these factors make it difficult for businesses to grow and expand, but it increases the likelihood of businesses relocating out of the state.

In order to remain competitive, the CCTC supports the continued growth of large and small businesses as well as businesses that are at risk for relocating out of state. The tax credit serves to alleviate some of the costs of doing business in California by offering opportunities to expedite future plans of investment in the state and/or the creation of new jobs. Without this program, it is possible that new jobs and investments would still occur, however the scale and magnitude would not be as significant. Furthermore, without the support of this tax credit it is likely that some businesses would choose to relocate to state's with similar programs or other tax incentives.

¹⁰ Poverty threshold data was provided by the United State Census Bureau; unemployment data was provided by the California Employment Development Department.

¹¹ <http://www.business.ca.gov/WhyCA/CaliforniaEconomybytheNumbers.aspx>

¹² Data provided by the Department of Finance, Economic Research Unit

¹³ <http://www.bls.gov/web/laus/laumstrk.htm> (May 2014)

¹⁴ <http://www.cnbc.com/id/101693398>

iii. Employment Impacts in California

GO-Biz used IMPLAN to estimate the economic impact of direct, indirect and induced employment/jobs created by future applicants.¹⁵ Based on IMPLAN modeling, CCTC awardee employment commitments from 2015-2018, will support an aggregate total of approximately 160,702 direct, 88,044 indirect, and 104,967 induced jobs in California. The total positive employment impact is 353,713 jobs.

Direct Employment Impact					
Impact Type	2015	2016	2017	2018	Aggregate
Direct Effect	10,000	13,333	13,333	13,333	49,999
Indirect Effect	3,958	5,277	5,277	5,277	19,789
Induced Effect	5,283	7,044	7,044	7,044	26,417
Total Effect	19,241	25,655	25,655	25,655	96,206

Equipment and Construction Investment Employment Impact					
Impact Type	2015	2016	2017	2018	Aggregate
Direct Effect	14,034	33,790	33,790	33,790	115,404
Indirect Effect	7,474	20,749	20,749	20,749	69,722
Induced Effect	9,216	23,831	23,831	23,831	80,708
Total Effect	30,724	78,370	78,370	78,370	265,834

Loss in Jobs from Change in Personal Income					
Impact Type	2015	2016	2017	2018	Aggregate
Direct Effect	-976	-1271	-1242	-1213	-4702
Indirect Effect	-304	-396	-388	-379	-1467
Induced Effect	-448	-583	-570	-557	-2158
Total Effect	-1728	-2250	-2200	-2149	-8327

Aggregate Employment Impact					
Impact Type	2015	2016	2017	2018	Aggregate
Direct Effect	23,058	45,852	45,881	45,910	160,702
Indirect Effect	11,128	25,630	25,638	25,647	88,044
Induced Effect	14,052	30,292	30,305	30,318	104,967
Total Effect	48,238	101,775	101,825	101,876	353,713

iv. Investment and Incentives

GO-Biz used IMPLAN to estimate the economic impact of equipment and construction investments by future applicants. Based on IMPLAN modeling, CCTC awardee investment commitments from 2015-2018, will support an aggregate total of

¹⁵ See Appendix I. for definition of Employment.

approximately \$2.25 billion direct, \$1.16 billion indirect, and \$1.1 billion induced economic output in California. The total positive investment output is roughly \$4.5 billion.

Investment Impact					
Impact Type	2015	2016	2017	2018	Aggregate
Direct Effect	\$450,000,000	\$600,000,000	\$600,000,000	\$600,000,000	\$2,250,000,000
Indirect Effect	\$233,605,904	\$311,474,538	\$311,474,538	\$311,474,538	\$1,168,029,518
Induced Effect	\$220,768,129	\$294,357,505	\$294,357,505	\$294,357,505	\$1,103,840,645
Total Effect	\$904,374,032	\$1,205,832,043	\$1,205,832,043	\$1,205,832,043	\$4,521,870,162

v. Personal Income

GO-Biz used IMPLAN to estimate the economic impact of labor income based on the expected employment, equipment and construction investment commitments of future applicants. Based on IMPLAN modeling, CCTC awardee employment and investment commitments from 2015-2018, will support an aggregate total of approximately \$11.76 billion direct, \$6.3 billion indirect, and \$5.7 billion induced personal income in California.¹⁶ The total positive personal income impact is roughly \$23.8 billion (see page 9).

Direct Labor Income					
Impact Type	2015	2016	2017	2018	Aggregate
Direct Effect	\$646,608,618	\$862,144,825	\$853,523,376	\$844,988,143	\$3,207,264,962
Indirect Effect	\$284,175,809	\$378,901,079	\$375,112,068	\$371,360,948	\$1,409,549,904
Induced Effect	\$291,302,205	\$388,402,941	\$384,518,911	\$380,673,722	\$1,444,897,779
Total Effect	\$1,222,086,633	\$1,629,448,844	\$1,613,154,356	\$1,597,022,812	\$6,061,712,645

Equipment and Construction Investment Labor Income					
Impact Type	2015	2016	2017	2018	Aggregate
Direct Effect	\$1,084,673,483	\$2,611,524,429	\$2,585,409,185	\$2,559,555,093	\$8,841,162,190
Indirect Effect	\$541,190,606	\$1,502,503,069	\$1,487,478,039	\$1,472,603,258	\$5,003,774,973
Induced Effect	\$508,087,610	\$1,313,756,004	\$1,300,618,444	\$1,287,612,259	\$4,410,074,317
Total Effect	\$2,133,951,699	\$5,427,783,503	\$5,373,505,667	\$5,319,770,611	\$18,255,011,480

¹⁶ Personal income as referenced in this section denotes total compensation for an employee (i.e. aggregated pay and benefits).

Loss in Labor Income from change in Personal Consumption					
Impact Type	2015	2016	2017	2018	Aggregate
Direct Effect	-\$58,682,318.00	-\$76,409,794.00	-\$74,624,606.00	-\$72,886,219.00	-\$282,602,937.00
Indirect Effect	-\$20,338,009.00	-\$26,533,258.00	-\$25,964,085.00	-\$25,409,428.00	-\$98,244,780.00
Induced Effect	-\$24,699,644.00	-\$32,177,614.00	-\$31,442,057.00	-\$30,725,654.00	-\$119,044,969.00
Total Effect	-\$103,719,971.00	-\$135,120,666.00	-\$132,030,748.00	-\$129,021,301.00	-\$499,892,686.00

Aggregate Labor Income					
Impact Type	2015	2016	2017	2018	Aggregate
Direct Effect	\$1,672,599,783.31	\$3,397,259,459.75	\$3,364,307,955.22	\$3,331,657,016.60	\$11,765,824,214.89
Indirect Effect	\$805,028,406.77	\$1,854,870,890.40	\$1,836,626,021.91	\$1,818,554,777.84	\$6,315,080,096.93
Induced Effect	\$774,690,171.16	\$1,669,981,330.51	\$1,653,695,298.06	\$1,637,560,327.51	\$5,735,927,127.25
Total Effect	\$3,252,318,361.25	\$6,922,111,680.66	\$6,854,629,275.19	\$6,787,772,121.96	\$23,816,831,439.06

vi. Change in Output

GO-Biz used IMPLAN to estimate the total change in output based on expected employment, equipment and construction investment commitments of futures applicants. Based on IMPLAN modeling, CCTC awardee employment and investment commitments from 2015-2018 will support approximately \$5.68 billion direct, \$2.78 billion indirect, and \$2.58 billion induced output impacts in California. The total output impact is roughly \$11 billion.

Change in Output					
Impact Type	2015	2016	2017	2018	Output
Direct Effect	\$721,393,547	\$1,669,878,439	\$1,655,049,520	\$1,641,606,741	\$5,687,928,247
Indirect Effect	\$352,875,778	\$812,694,355	\$809,519,759	\$807,261,042	\$2,782,350,935
Induced Effect	\$347,352,858	\$753,701,754	\$747,086,256	\$741,085,397	\$2,589,226,265
Total Effect	\$1,421,622,183	\$3,236,274,549	\$3,211,655,535	\$3,189,953,180	\$11,059,505,447

To evaluate the opportunity costs of the CCTC, GO-Biz developed a list of all personal consumption industries.¹⁷ Each industry was proportionately weighted to its respective output within the state. The total allocated amount of credits was then spread across each industry to reflect a loss in consumer spending. The impact of this opportunity cost is reflected in the total output below. Based on IMPLAN modeling, the total loss in output associated with the cost of the program is approximately \$1.28 billion.

¹⁷ See Appendix V.

Loss in Output from Changes in Personal Consumption					
Impact Type	2015	2016	2017	2018	Aggregate
Direct Effect	-\$146,511,529	-\$190,817,907	-\$186,404,345	-\$182,104,873	-\$705,838,654
Indirect Effect	-\$50,937,122	-\$66,447,805	-\$65,016,757	-\$63,622,027	-\$246,023,711
Induced Effect	-\$69,738,072	-\$90,851,669	-\$88,774,831	-\$86,752,077	-\$336,116,649
Total Effect	-\$267,186,723	-\$348,117,381	-\$340,195,933	-\$332,478,977	-\$1,287,979,014

Taking into account the impacts of the loss in personal consumption, GO-Biz calculated the total change in output of the program. CCTC awardee employment and investment commitments from 2015-2018 will support approximately \$4.9 billion direct, \$2.5 billion indirect, and \$2.2 billion induced output impacts in California. The total output impact is roughly \$9.7 billion.

Aggregate Change in Output (with change in personal consumption)					
Impact Type	2015	2016	2017	2018	Output
Direct Effect	\$574,882,018	\$1,479,060,532	\$1,468,645,175	\$1,459,501,868	\$4,982,089,593
Indirect Effect	\$301,938,656	\$746,246,550	\$744,503,002	\$743,639,015	\$2,536,327,224
Induced Effect	\$277,614,786	\$662,850,085	\$658,311,425	\$654,333,320	\$2,253,109,616
Total Effect	\$1,154,435,460	\$2,888,157,168	\$2,871,459,602	\$2,857,474,203	\$9,771,526,433

vii. Incentives for Innovation in Products, Materials, or Processes

While no additional innovations are required to receive a tax credit, the tax credit agreements allow for compliance flexibility. By permitting the applicants to spread employment and investment commitments across five tax years, there is greater potential for innovation in products, materials or processes. Without an immediate compliance requirement, applicants are able to mitigate risk with longer-term projects. Additionally, the CCTC helps California businesses remain competitive. By supporting expansion and growth, this program encourages future innovation from applicants and recipients.

4. Summary and Interpretation of Economic Impacts

The CCTC Regulations will significantly improve California's economy. The projections for job impacts and personal income are substantial. The program supports approximately 352,000 jobs and \$23.7 billion in employee compensation through 2018. Additionally, the significant increases in investment output, roughly \$4.5 billion, will have a positive impact on the economy. The total output from the program is estimated to be roughly \$9.7 billion. All of the discussed economic impacts produce a positive outcome on the California economy. This outcome supports the intention of GEDI to help California businesses grow and expand.

E. Alternatives

1. Alternative A.

This alternative would require GO-Biz to develop a software application tool that allows for a comprehensive review of all applicants based upon a weighted scoring system from all data inputs submitted by individual applicants. Weights would be assigned to all quantitative data inputs in the first phase of evaluation. Geographic Information Systems (GIS) mapping would be used to grade projects based on their location and regional unemployment level. Applicants with the highest scores would then move into the second phase of evaluation for further qualitative and quantitative assessment. Currently, in the first phase of evaluation, a cost-benefit formula is used to determine which applicants reach the second phase. This formula does not use all data inputs provided by the applicants, but only weighs the amount of tax credit requested to an applicant's proposed investments and employee compensation for new jobs.

i. Costs and Benefits

This alternative would allow GO-Biz to receive all relevant information upfront and decrease the length of the evaluation process. Additionally, the scoring system would increase transparency and decrease the likelihood of applicants manipulating the cost-benefit formula in an effort to reach the second phase of the evaluation.

ii. Reason for Rejecting

This alternative is resource intensive and would take a significant amount of time to implement. The CCTC program has limited resources and timelines in which it can allocate tax credit awards each fiscal year, making this alternative cost and time prohibitive. Finally, the scoring system as proposed removes flexibility in adjusting for changes to the California business climate.

2. Alternative B.

The second proposed alternative is to evaluate all quantitative and qualitative factors in the first phase of application evaluation. Under the emergency regulations, phase one of evaluation is based on a cost-benefit analysis formula that weighs the amount of tax credit requested to an applicant's proposed investments and employee compensation for new jobs. The top 200% of applicants move forward to the second phase of evaluation. In the second phase, qualitative factors, such as poverty and unemployment levels in the business location, strategic importance to the state, region, or locality, and opportunity for future growth and expansion, are considered.

i. Costs and Benefits

Similar to alternative A., this alternative would allow GO-Biz to receive and evaluate all relevant information upfront. This would likely improve the overall assessment of each applicant and could result in a more efficient allocation of tax credits.

ii. Reasons for Rejecting

This alternative would require additional staff, beyond what was allocated for in the Governor's 2014 budget. It would also require additional staff time to review applications that, in the majority of cases, would not end up being considered for an award.

Appendix I.

Key Term	Definition
Direct Impact	The initial expenditures, or production, made by the industry experiencing the economic change.
Indirect Impact	The effects of local inter-industry spending through backwards linkages.
Backwards Linkages	The tracking of industry purchases backward through the supply chain.
Induced Impact	The results of local spending of employee's wages and salaries for both employees of the directly affected industry, and the employees of the indirectly affected industries.
Labor Income	The total value paid to local workers within a region.
Total Output	Result demonstrating the total value of an industry's production, typically viewed as the value of a change in sales or value of increased production.
Employment	Total annual average jobs. This includes self-employed and wage and salary employees, and all full-time, part-time and seasonal jobs, based on a count of fulltime/part-time averages over twelve months.
Equipment	The dollar value of capital investments.
Construction	The dollar value of any building, renovation and other construction related investments.

Appendix II.

Employment Sectors	
Food services and drinking places	Non-depository credit intermediation and related activities
Wholesale trade businesses	Scenic and sightseeing transportation and support activities for transportation
Offices of physicians, dentists, and other health practitioners	Home health care services
Employment services	Couriers and messengers
Private household operations	Retail Stores - Sporting goods, hobby, book and music
Private hospitals	Business support services
Retail Stores - Food and beverage	Warehousing and storage
Securities, commodity contracts, investments, and related activities	Other personal services
Retail Stores - General merchandise	Retail Stores - Electronics and appliances
Services to buildings and dwellings	Fitness and recreational sports centers
Nursing and residential care facilities	Transit and ground passenger transportation
Custom computer programming services	Funds, trusts, and other financial vehicles
Architectural, engineering, and related services	Dry-cleaning and laundry services
Support activities for agriculture and forestry	Software publishers
Legal services	Retail Stores - Furniture and home furnishings
Management of companies and enterprises	Retail Stores - Gasoline stations

Employment Sectors	
Individual and family services	Printing
Retail Stores - Clothing and clothing accessories	Other amusement and recreation industries
Medical and diagnostic labs and outpatient and other ambulatory care services	Semiconductor and related device manufacturing
Scientific research and development services	Electronic computer manufacturing
Transport by truck	Extraction of oil and natural gas
Monetary authorities and depository credit intermediation activities	Transport by air
Retail Stores - Motor vehicle and parts	All other miscellaneous professional, scientific, and technical services
Accounting, tax preparation, bookkeeping, and payroll services	Other support services
Retail Stores - Miscellaneous	Waste management and remediation services
Investigation and security services	Veterinary services
Retail Nonstores - Direct and electronic sales	Internet publishing and broadcasting
Environmental and other technical consulting services	Tree nut farming
Automotive repair and maintenance, except car washes	Car washes
Management, scientific, and technical consulting services	Commercial and industrial machinery and equipment repair and maintenance
Insurance agencies, brokerages, and related activities	Pharmaceutical preparation manufacturing
Computer systems design services	Cut and sew apparel contractors
Insurance carriers	Natural gas distribution
Retail Stores - Health and personal care	Search, detection, and navigation instruments manufacturing
Retail Stores - Building material and garden supply	Machine shops
Personal care services	Specialized design services
Advertising and related services	Fruit farming
Telecommunications	Surgical and medical instrument, laboratory and medical instrument manufacturing
Child day care services	Radio and television broadcasting
General and consumer goods rental except video tapes and discs	Electricity and signal testing instruments manufacturing
Wineries	Turned product and screw, nut, and bolt manufacturing
Automotive equipment rental and leasing	Periodical publishers
Electronic and precision equipment repair and maintenance	Photographic services
Commercial and industrial machinery and equipment rental and leasing	Transport by rail
Bread and bakery product manufacturing	Electromedical and electrotherapeutic apparatus manufacturing
Travel arrangement and reservation services	Facilities support services
Other aircraft parts and auxiliary equipment manufacturing	All other food manufacturing
Data processing, hosting, ISP, web search portals and related services	Bare printed circuit board manufacturing
Dairy cattle and milk production	Support activities for oil and gas operations

Employment Sectors	
Other computer related services, including facilities management	Computer terminals and other computer peripheral equipment manufacturing
Electric power generation, transmission, and distribution	All other miscellaneous manufacturing
Cable and other subscription programming	Dental laboratories manufacturing
Ornamental and architectural metal products manufacturing	Poultry processing
Women's and girls' cut and sew apparel manufacturing	Analytical laboratory instrument manufacturing
Other accommodations	Snack food manufacturing
Fruit and vegetable canning, pickling, and drying	Wood kitchen cabinet and countertop manufacturing
Vegetable and melon farming	Plate work and fabricated structural product manufacturing
Other plastics product manufacturing	Printed circuit assembly (electronic assembly) manufacturing
Guided missile and space vehicle manufacturing	Industrial process variable instruments manufacturing
Aircraft manufacturing	Fluid milk and butter manufacturing
Maintenance and repair construction of residential structures	Wood windows and doors and millwork manufacturing
Death care services	Semiconductor machinery manufacturing
Newspaper publishers	Animal production, except cattle and poultry and eggs
Personal and household goods repair and maintenance	Ready-mix concrete manufacturing
Broadcast and wireless communications equipment manufacturing	Valve and fittings other than plumbing manufacturing
All other crop farming	Ship building and repairing
Coating, engraving, heat treating and allied activities	Book publishers
Greenhouse, nursery, and floriculture production	Lighting fixture manufacturing
Cattle ranching and farming	Tortilla manufacturing
Paperboard container manufacturing	Audio and video equipment manufacturing
Other electronic component manufacturing	Plastics packaging materials and un-laminated film and sheet manufacturing
Grain farming	Toilet preparation manufacturing
Soft drink and ice manufacturing	Textile and fabric finishing mills
Lessors of nonfinancial intangible assets	Upholstered household furniture manufacturing
Animal (except poultry) slaughtering, rendering, and processing	Other fabricated metal manufacturing
Motor vehicle parts manufacturing	Cheese manufacturing
Petroleum refineries	Sign manufacturing
Surgical appliance and supplies manufacturing	Sporting and athletic goods manufacturing
Frozen food manufacturing	Wood container and pallet manufacturing
Transport by water	Aluminum product manufacturing from purchased aluminum
Telephone apparatus manufacturing	Other information services
Other general purpose machinery manufacturing	Farm machinery and equipment manufacturing
Water, sewage and other treatment and delivery systems	Musical instrument manufacturing
All other chemical product and preparation manufacturing	Plastics bottle manufacturing

Employment Sectors	
Other industrial machinery manufacturing	Mining and quarrying sand, gravel, clay, and ceramic and refractory minerals
Turbine and turbine generator set units manufacturing	Special tool, die, jig, and fixture manufacturing
All other miscellaneous electrical equipment and component manufacturing	Other cut and sew apparel manufacturing
Other commercial and service industry machinery manufacturing	Computer storage device manufacturing
Metal cutting and forming machine tool manufacturing	Nonferrous metal foundries
Ophthalmic goods manufacturing	Urethane and other foam product (except polystyrene) manufacturing
Video tape and disc rental	Jewelry and silverware manufacturing
Cookie, cracker, and pasta manufacturing	Commercial logging
In-vitro diagnostic substance manufacturing	Cotton farming
Sound recording industries	Propulsion units and parts for space vehicles and guided missiles manufacturing
Soap and cleaning compound manufacturing	All other textile product mills
Support activities for printing	Spring and wire product manufacturing
Sawmills and wood preservation	Air conditioning, refrigeration, and warm air heating equipment manufacturing
Crown and closure manufacturing and metal stamping	Wood television, radio, and sewing machine cabinet manufacturing
Bowling centers	Biological product (except diagnostic) manufacturing
Dental equipment and supplies manufacturing	Steel product manufacturing from purchased steel
Commercial Fishing	Metal can, box, and other metal container (light gauge) manufacturing
Fluid power process machinery manufacturing	Plastics pipe and pipe fitting manufacturing
Optical instrument and lens manufacturing	Curtain and linen mills
Other rubber product manufacturing	Other animal food manufacturing
Electronic connector manufacturing	Transport by pipeline
Other concrete product manufacturing	Metal and other household furniture (except wood) manufacturing
Other communications equipment manufacturing	Medicinal and botanical manufacturing
Watch, clock, and other measuring and controlling device manufacturing	Paint and coating manufacturing
Directory, mailing list, and other publishers	Relay and industrial control manufacturing
Men's and boys' cut and sew apparel manufacturing	Doll, toy, and game manufacturing
Seasoning and dressing manufacturing	Ice cream and frozen dessert manufacturing
Ferrous metal foundries	Magnetic and optical recording media manufacturing
Nonupholstered wood household furniture manufacturing	Aircraft engine and engine parts manufacturing
All other forging, stamping, and sintering	Other leather and allied product manufacturing
Glass product manufacturing made of purchased glass	Plastics material and resin manufacturing
Iron and steel mills and ferroalloy manufacturing	Textile bag and canvas mills
Breweries	Hardware manufacturing
Wiring device manufacturing	Glass container manufacturing

Employment Sectors	
Showcase, partition, shelving, and locker manufacturing	Electronic capacitor, resistor, coil, transformer, and other inductor manufacturing
Drilling oil and gas wells	Confectionery manufacturing from purchased chocolate
Software, audio, and video media for reproduction	Adhesive manufacturing
Industrial mold manufacturing	Travel trailer and camper manufacturing
Power, distribution, and specialty transformer manufacturing	Other basic organic chemical manufacturing
Packaging machinery manufacturing	Plastics and rubber industry machinery manufacturing
Motor vehicle body manufacturing	Mining gold, silver, and other metal ore
Motor and generator manufacturing	Carpet and rug mills
Hand-tool manufacturing	All other basic inorganic chemical manufacturing
Pump and pumping equipment manufacturing	Automobile manufacturing
Mattress manufacturing	Air purification and ventilation equipment manufacturing
Switchgear and switchboard apparatus manufacturing	Brick, tile, and other structural clay product manufacturing
Flour milling and malt manufacturing	Miscellaneous nonmetallic mineral product manufacturing
Apparel knitting mills	Automatic environmental control manufacturing
Blind and shade manufacturing	Vending, commercial, industrial, and office machinery manufacturing
Mining and oil and gas field machinery manufacturing	Storage battery manufacturing
Electron tube manufacturing	Cut stone and stone product manufacturing
Material handling equipment manufacturing	Seafood product preparation and packaging
Apparel accessories and other apparel manufacturing	Heating equipment (except warm air furnaces) manufacturing
Communication and energy wire and cable manufacturing	Cement manufacturing
Nonferrous metal (except copper and aluminum) rolling, drawing, extruding and alloying	Industrial gas manufacturing
Polystyrene foam product manufacturing	Lime and gypsum product manufacturing
Nonchocolate confectionery manufacturing	Footwear manufacturing
Engineered wood member and truss manufacturing	Flavoring syrup and concentrate manufacturing
Metal tank (heavy gauge) manufacturing	Pottery, ceramics, and plumbing fixture manufacturing
Mining and quarrying other nonmetallic minerals	Sugarcane and sugar beet farming
Coffee and tea manufacturing	Chocolate and confectionery manufacturing from cacao beans
Concrete pipe, brick, and block manufacturing	Household cooking appliance manufacturing
Gasket, packing, and sealing device manufacturing	Dry, condensed, and evaporated dairy product manufacturing
Stationery product manufacturing	All other converted paper product manufacturing
Mining and quarrying stone	Manufactured home (mobile home) manufacturing
Mineral wool manufacturing	Custom roll forming
Unlaminated plastics profile shape manufacturing	Irradiation apparatus manufacturing
Motorcycle, bicycle, and parts manufacturing	Copper rolling, drawing, extruding and alloying
Poultry and egg production	All other miscellaneous wood product manufacturing
Office furniture and custom architectural woodwork and millwork manufacturing	Truck trailer manufacturing
Fertilizer manufacturing	Sanitary paper product manufacturing

Employment Sectors	
Forestry, forest products, and timber tract production	Dog and cat food manufacturing
Cutting tool and machine tool accessory manufacturing	Rubber and plastics hoses and belting manufacturing
Fabricated pipe and pipe fitting manufacturing	Heavy duty truck manufacturing
Coated and laminated paper, packaging paper and plastics film manufacturing	Plumbing fixture fitting and trim manufacturing
Institutional furniture manufacturing	Ball and roller bearing manufacturing
Asphalt shingle and coating materials manufacturing	Laminated plastics plate, sheet (except packaging), and shape manufacturing
All other paper bag and coated and treated paper manufacturing	Office supplies (except paper) manufacturing
Knit fabric mills	Asphalt paving mixture and block manufacturing
Boat building	Primary battery manufacturing
Totalizing fluid meters and counting devices manufacturing	Power-driven hand-tool manufacturing
Railroad rolling stock manufacturing	Secondary smelting and alloying of aluminum
Sugar cane mills and refining	Distilleries
Arms, ordnance, and accessories manufacturing	Paperboard Mills
Industrial process furnace and oven manufacturing	Abrasive product manufacturing
Paper mills	Commercial hunting and trapping
Military armored vehicle, tank, and tank component manufacturing	Fabric coating mills
Fats and oils refining and blending	Ground or treated mineral and earth manufacturing
Mechanical power transmission equipment manufacturing	Oilseed farming
Petroleum lubricating oil and grease manufacturing	Wet corn milling
Other pressed and blown glass and glassware manufacturing	Reconstituted wood product manufacturing
Prefabricated wood building manufacturing	Alkalies and chlorine manufacturing
Light truck and utility vehicle manufacturing	Alumina refining and primary aluminum production
Printing ink manufacturing	Small electrical appliance manufacturing
Broom, brush, and mop manufacturing	Cutlery, utensil, pot, and pan manufacturing
Breakfast cereal manufacturing	Household refrigerator and home freezer manufacturing
Construction machinery manufacturing	Synthetic dye and pigment manufacturing
Air and gas compressor manufacturing	Leather and hide tanning and finishing
All other transportation equipment manufacturing	Beet sugar manufacturing
Carbon and graphite product manufacturing	Support activities for other mining
Fiber, yarn, and thread mills	Artificial and synthetic fibers and filaments manufacturing
Soybean and other oilseed processing	All other petroleum and coal products manufacturing
Other engine equipment manufacturing	Lawn and garden equipment manufacturing
Flat glass manufacturing	Primary smelting and refining of nonferrous metal (except copper and aluminum)
Veneer and plywood manufacturing	Household laundry equipment manufacturing
Synthetic rubber manufacturing	Motor home manufacturing
Broadwoven fabric mills	Pulp mills

Employment Sectors	
Speed changer, industrial high-speed drive, and gear manufacturing	Mining iron ore
Rolling mill and other metalworking machinery manufacturing	Other major household appliance manufacturing
Pesticide and other agricultural chemical manufacturing	Mining coal
Power boiler and heat exchanger manufacturing	
Tire manufacturing	Photographic and photocopying equipment manufacturing
Electric lamp bulb and part manufacturing	Office administrative services
Ammunition manufacturing	Nonwoven fabric mills
Narrow fabric mills and schiffli machine embroidery	Clay and non-clay refractory manufacturing

Appendix III.

Equipment Investment Sectors	
Wholesale trade businesses	Ferrous metal foundries
Petroleum refineries	Mining and oil and gas field machinery manufacturing
Electronic computer manufacturing	Ice cream and frozen dessert manufacturing
Monetary authorities and depository credit intermediation activities	Jewelry and silverware manufacturing
Securities, commodity contracts, investments, and related activities	Software, audio, and video media for reproduction
Telecommunications	Dry, condensed, and evaporated dairy product manufacturing
Pharmaceutical preparation manufacturing	Showcase, partition, shelving, and locker manufacturing
Semiconductor and related device manufacturing	Asphalt paving mixture and block manufacturing
Scientific research and development services	Chocolate and confectionery manufacturing from cacao beans
Custom computer programming services	Relay and industrial control manufacturing
Software publishers	Glass container manufacturing
Natural gas distribution	Glass product manufacturing made of purchased glass
Transport by truck	Propulsion units and parts for space vehicles and guided missiles manufacturing
Extraction of oil and natural gas	Confectionery manufacturing from purchased chocolate
Retail Stores - General merchandise	Pump and pumping equipment manufacturing
Electric power generation, transmission, and distribution	Power, distribution, and specialty transformer manufacturing
Transport by air	Sign manufacturing
Search, detection, and navigation instruments manufacturing	Electron tube manufacturing
Internet publishing and broadcasting	Sugar cane mills and refining
Wineries	Pesticide and other agricultural chemical manufacturing
Aircraft manufacturing	Hardware manufacturing
Surgical and medical instrument, laboratory and medical instrument manufacturing	Motor and generator manufacturing
Scenic and sightseeing transportation and support activities for transportation	Mattress manufacturing
Soft drink and ice manufacturing	Other concrete product manufacturing

Equipment Investment Sectors	
Fruit farming	Dental laboratories manufacturing
Waste management and remediation services	Non-chocolate confectionery manufacturing
Fluid milk and butter manufacturing	Sanitary paper product manufacturing
Other computer related services, including facilities management	Air conditioning, refrigeration, and warm air heating equipment manufacturing
Fruit and vegetable canning, pickling, and drying	Material handling equipment manufacturing
Support activities for agriculture and forestry	Switchgear and switchboard apparatus manufacturing
Couriers and messengers	Spring and wire product manufacturing
Other aircraft parts and auxiliary equipment manufacturing	Wood container and pallet manufacturing
Guided missile and space vehicle manufacturing	Nonferrous metal foundries
Broadcast and wireless communications equipment manufacturing	Polystyrene foam product manufacturing
Printing	Stationery product manufacturing
Soap and cleaning compound manufacturing	Wood television, radio, and sewing machine cabinet manufacturing
Warehousing and storage	Men's and boys' cut and sew apparel manufacturing
Vegetable and melon farming	Mineral wool manufacturing
Dairy cattle and milk production	Coated and laminated paper, packaging paper and plastics film manufacturing
Tree nut farming	Wet corn milling
Motor vehicle parts manufacturing	Motor vehicle body manufacturing
Cheese manufacturing	Synthetic rubber manufacturing
Paperboard container manufacturing	Paper mills
Snack food manufacturing	Packaging machinery manufacturing
Electronic and precision equipment repair and maintenance	Institutional furniture manufacturing
All other crop farming	Un-laminated plastics profile shape manufacturing
Commercial and industrial machinery and equipment repair and maintenance	Special tool, die, jig, and fixture manufacturing
Machine shops	Non-upholstered wood household furniture manufacturing
Electro-medical and electrotherapeutic apparatus manufacturing	Cement manufacturing
Other plastics product manufacturing	Support activities for printing
Bread and bakery product manufacturing	Irradiation apparatus manufacturing
Women's and girls' cut and sew apparel manufacturing	All other textile product mills
Electricity and signal testing instruments manufacturing	Forestry, forest products, and timber tract production
Computer terminals and other computer peripheral equipment manufacturing	Breakfast cereal manufacturing
Toilet preparation manufacturing	Lime and gypsum product manufacturing
Telephone apparatus manufacturing	Construction machinery manufacturing
Semiconductor machinery manufacturing	Vending, commercial, industrial, and office machinery manufacturing
Specialized design services	Electronic capacitor, resistor, coil, transformer, and other inductor manufacturing
Animal (except poultry) slaughtering, rendering, and processing	Metal tank (heavy gauge) manufacturing

Equipment Investment Sectors	
Ornamental and architectural metal products manufacturing	Miscellaneous nonmetallic mineral product manufacturing
Iron and steel mills and ferroalloy manufacturing	Storage battery manufacturing
Surgical appliance and supplies manufacturing	Concrete pipe, brick, and block manufacturing
Frozen food manufacturing	Other engine equipment manufacturing
Valve and fittings other than plumbing manufacturing	Animal production, except cattle and poultry and eggs
Transit and ground passenger transportation	Musical instrument manufacturing
Plastics material and resin manufacturing	Custom roll-forming
Computer storage device manufacturing	Railroad rolling stock manufacturing
Breweries	Curtain and linen mills
Other electronic component manufacturing	Secondary smelting and alloying of aluminum
Other animal food manufacturing	Household cooking appliance manufacturing
Analytical laboratory instrument manufacturing	Hand-tool manufacturing
Poultry processing	Air purification and ventilation equipment manufacturing
Greenhouse, nursery, and floriculture production	Distilleries
Transport by rail	Seafood product preparation and packaging
Coating, engraving, heat treating and allied activities	Other cut and sew apparel manufacturing
Audio and video equipment manufacturing	Metal and other household furniture (except wood) manufacturing
In-vitro diagnostic substance manufacturing	Carpet and rug mills
All other chemical product and preparation manufacturing	Plastics and rubber industry machinery manufacturing
Cattle ranching and farming	Automatic environmental control manufacturing
All other food manufacturing	Military armored vehicle, tank, and tank component manufacturing
Fats and oils refining and blending	Other leather and allied product manufacturing
Transport by water	Totalizing fluid meters and counting devices manufacturing
Turbine and turbine generator set units manufacturing	Commercial Fishing
Turned product and screw, nut, and bolt manufacturing	Fabricated pipe and pipe fitting manufacturing
Other amusement and recreation industries	Commercial logging
Industrial process variable instruments manufacturing	Gasket, packing, and sealing device manufacturing
Plastics packaging materials and unlaminated film and sheet manufacturing	Travel trailer and camper manufacturing
Drilling oil and gas wells	Industrial mold manufacturing
Flour milling and malt manufacturing	All other transportation equipment manufacturing
Fitness and recreational sports centers	Engineered wood member and truss manufacturing
Automobile manufacturing	Textile bag and canvas mills
Other basic organic chemical manufacturing	Ball and roller bearing manufacturing
Seasoning and dressing manufacturing	All other converted paper product manufacturing
Magnetic and optical recording media manufacturing	Printing ink manufacturing
Fertilizer manufacturing	Heating equipment (except warm air furnaces) manufacturing
Printed circuit assembly (electronic assembly) manufacturing	Apparel accessories and other apparel manufacturing
Bare printed circuit board manufacturing	Truck trailer manufacturing
Plate work and fabricated structural product manufacturing	Brick, tile, and other structural clay product manufacturing

Equipment Investment Sectors	
Cut and sew apparel contractors	Alkalies and chlorine manufacturing
Other commercial and service industry machinery manufacturing	Laminated plastics plate, sheet (except packaging), and shape manufacturing
Aluminum product manufacturing from purchased aluminum	Rubber and plastics hoses and belting manufacturing
Lighting fixture manufacturing	Paperboard Mills
All other miscellaneous manufacturing	Plumbing fixture fitting and trim manufacturing
Steel product manufacturing from purchased steel	All other petroleum and coal products manufacturing
Cookie, cracker, and pasta manufacturing	Air and gas compressor manufacturing
Sporting and athletic goods manufacturing	Blind and shade manufacturing
Ready-mix concrete manufacturing	Office furniture and custom architectural woodwork and millwork manufacturing
Other communications equipment manufacturing	All other paper bag and coated and treated paper manufacturing
Other industrial machinery manufacturing	Cutting tool and machine tool accessory manufacturing
Flavoring syrup and concentrate manufacturing	Apparel knitting mills
Biological product (except diagnostic) manufacturing	Office supplies (except paper) manufacturing
Metal can, box, and other metal container (light gauge) manufacturing	Carbon and graphite product manufacturing
Paint and coating manufacturing	Industrial process furnace and oven manufacturing
Support activities for oil and gas operations	Boat building
Car washes	Primary battery manufacturing
Other fabricated metal manufacturing	Alumina refining and primary aluminum production
All other miscellaneous electrical equipment and component manufacturing	Primary smelting and refining of nonferrous metal (except copper and aluminum)
Farm machinery and equipment manufacturing	Flat glass manufacturing
Petroleum lubricating oil and grease manufacturing	Ground or treated mineral and earth manufacturing
Asphalt shingle and coating materials manufacturing	Mechanical power transmission equipment manufacturing
Adhesive manufacturing	Nonwoven fabric mills
Crown and closure manufacturing and metal stamping	Tire manufacturing
Doll, toy, and game manufacturing	Fiber, yarn, and thread mills
All other forging, stamping, and sintering	Pottery, ceramics, and plumbing fixture manufacturing
Ship building and repairing	All other miscellaneous wood product manufacturing
Other general purpose machinery manufacturing	Other pressed and blown glass and glassware manufacturing
Transport by pipeline	Broom, brush, and mop manufacturing
Medicinal and botanical manufacturing	Footwear manufacturing
Nonferrous metal (except copper and aluminum) rolling, drawing, extruding and alloying	Cut stone and stone product manufacturing
Optical instrument and lens manufacturing	Synthetic dye and pigment manufacturing
Fluid power process machinery manufacturing	Speed changer, industrial high-speed drive, and gear manufacturing
Dental equipment and supplies manufacturing	Manufactured home (mobile home) manufacturing
Ophthalmic goods manufacturing	Ammunition manufacturing
Textile and fabric finishing mills	Knit fabric mills
Coffee and tea manufacturing	Power-driven hand-tool manufacturing

Equipment Investment Sectors	
Poultry and egg production	Power boiler and heat exchanger manufacturing
Tortilla manufacturing	Broad-woven fabric mills
Watch, clock, and other measuring and controlling device manufacturing	Abrasive product manufacturing
Plastics bottle manufacturing	Veneer and plywood manufacturing
Plastics pipe and pipe fitting manufacturing	Household refrigerator and home freezer manufacturing
Light truck and utility vehicle manufacturing	Fabric coating mills
Metal cutting and forming machine tool manufacturing	Electric lamp bulb and part manufacturing
Water, sewage and other treatment and delivery systems	Rolling mill and other metalworking machinery manufacturing
Aircraft engine and engine parts manufacturing	Petrochemical manufacturing
Other rubber product manufacturing	Beet sugar manufacturing
Wood windows and doors and millwork manufacturing	Prefabricated wood building manufacturing
Wiring device manufacturing	Artificial and synthetic fibers and filaments manufacturing
Wood kitchen cabinet and countertop manufacturing	Small electrical appliance manufacturing
Sawmills and wood preservation	Sugarcane and sugar beet farming
Dog and cat food manufacturing	Clay and non-clay refractory manufacturing
All other basic inorganic chemical manufacturing	Narrow fabric mills and schiffli machine embroidery
Grain farming	Cutlery, utensil, pot, and pan manufacturing
Motorcycle, bicycle, and parts manufacturing	Tobacco product manufacturing
Copper rolling, drawing, extruding and alloying	Support activities for other mining
Industrial gas manufacturing	Reconstituted wood product manufacturing
Electronic connector manufacturing	Household laundry equipment manufacturing
Soybean and other oilseed processing	Lawn and garden equipment manufacturing
Communication and energy wire and cable manufacturing	Pulp mills
Urethane and other foam product (except polystyrene) manufacturing	Oilseed farming
Upholstered household furniture manufacturing	Motor home manufacturing
Heavy duty truck manufacturing	Other major household appliance manufacturing
Cotton farming	Photographic and photocopying equipment manufacturing

Appendix IV.

Construction Investment Sectors	
Construction of new nonresidential commercial and health care structures	Construction of other new nonresidential structures
Construction of new nonresidential manufacturing structures	Maintenance and repair construction of nonresidential maintenance and repair

Appendix V.

Personal Consumption Sectors	
Real estate establishments	Other personal services
Imputed rental activity for owner-occupied dwellings	Retail Stores - Miscellaneous
Food services and drinking places	Other private educational services
Monetary authorities and depository credit intermediation activities	Couriers and messengers
Offices of physicians, dentists, and other health practitioners	Private elementary and secondary schools
Securities, commodity contracts, investments, and related activities	Radio and television broadcasting
Private hospitals	Individual and family services
Telecommunications	Personal care services
Management of companies and enterprises	Commercial and industrial machinery and equipment rental and leasing
Motion picture and video industries	Investigation and security services
Scientific research and development services	Retail Stores - Gasoline stations
Custom computer programming services	Warehousing and storage
Legal services	Other support services
Medical and diagnostic labs and outpatient and other ambulatory care services	Automotive equipment rental and leasing
Software publishers	Electronic and precision equipment repair and maintenance
Insurance carriers	Retail Stores - Furniture and home furnishings
Architectural, engineering, and related services	Business support services
Lessors of nonfinancial intangible assets	Home health care services
Transport by truck	Promoters of performing arts and sports and agents for public figures
Retail Stores - Food and beverage	Commercial and industrial machinery and equipment repair and maintenance
Employment services	Travel arrangement and reservation services
Advertising and related services	Retail Stores - Sporting goods, hobby, book and music
Accounting, tax preparation, bookkeeping, and payroll services	Child day care services
Funds, trusts, and other financial vehicles	Specialized design services
Computer systems design services	Spectator sports companies
Retail Stores - General merchandise	Community food, housing, and other relief services, including rehabilitation services
Data processing, hosting, ISP, web search portals and related services	Transit and ground passenger transportation
Retail Nonstores - Direct and electronic sales	Sound recording industries
Retail Stores - Motor vehicle and parts	Transport by rail
Insurance agencies, brokerages, and related activities	Dry-cleaning and laundry services
Management, scientific, and technical consulting services	Periodical publishers
Services to buildings and dwellings	Transport by water
Nursing and residential care facilities	Performing arts companies
Retail Stores - Clothing and clothing accessories	Other amusement and recreation industries

Personal Consumption Sectors	
Non-depository credit intermediation and related activities	Veterinary services
Private junior colleges, colleges, universities, and professional schools	Fitness and recreational sports centers
Independent artists, writers, and performers	Personal and household goods repair and maintenance
Hotels and motels, including casino hotels	Book publishers
Transport by air	Newspaper publishers
Environmental and other technical consulting services	Facilities support services
Internet publishing and broadcasting	General and consumer goods rental except video tapes and discs
Automotive repair and maintenance, except car washes	Museums, historical sites, zoos, and parks
Scenic and sightseeing transportation and support activities for transportation	Death care services
Office administrative services	Other accommodations
Retail Stores - Electronics and appliances	Car washes
Retail Stores - Building material and garden supply	Transport by pipeline
Cable and other subscription programming	Directory, mailing list, and other publishers
All other miscellaneous professional, scientific, and technical services	Photographic services
Retail Stores - Health and personal care	Other information services
Amusement parks, arcades, and gambling industries	Video tape and disc rental
Waste management and remediation services	Bowling centers
Other computer related services, including facilities management	